



SUSAN COMBS TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE STATE OF TEXAS

FOR THE FISCAL YEAR ENDING **AUGUST 31, 2011**



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Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management and Data Services Divisions.

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Special appreciation to:

All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.

The State Auditor, John Keel, CPA, and his auditing staff.

State of Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2011

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Section One

INTRODUCTORY SECTION



February 23, 2012

To the Citizens of Texas, Governor Perry
and Members of the 82nd Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2011, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The state auditor performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2011, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education; health and human services; public safety and corrections; transportation; natural resources and recreation; regulation; general government; employee benefits; and teacher retirement benefits.

The management discussion and analysis (MD&A), in the financial section, provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Economic Outlook

During a year of exceptional drought and fires, the Texas economy still added 226,000 jobs over the 12 months ending in November 2011, and total nonfarm employment was 10.6 million. The gain reflects the robust energy-based industries. Other sectors also added substantial employment, but a few industries remain in fading growth momentum or job losses. Texas recovered 97 percent of the jobs lost during the recession compared to only 28 percent recovered for the nation.

Texas added more jobs over the past year than any other state and was the fastest growing of the 10 most populous states. The state's comparatively positive economic picture has encouraged interstate migration to Texas. The state population grew by an estimated 469,000 in calendar 2011, with nearly half of this growth from net migration. According to the Census Bureau's 2010 decennial population count, Texas—with 8.1 percent of the U.S. population—accounted for nearly 16 percent of the nation's total population growth during the decade. With growth of the resident population and the influx of job seekers, Texas' labor force grew more quickly than the supply of jobs during the recession, resulting in unemployment levels that were slow to improve. After averaging 8.2 percent in 2010, the highest since 1987, Texas' unemployment rate was still at 8.1 percent in November 2011. Even so, the Texas jobless rate has continuously remained below the national rate, which was 8.6 percent in November. The state's unemployment rate is expected to ease only modestly in 2012 and 2013.

After the recession bottomed out in 2009, personal income in Texas grew steadily but at a slower pace compared to previous recoveries. From the third quarter of 2010 to the third quarter of 2011, total personal income grew 5.7 percent, boosted by substantial hiring in the oil and natural gas exploration and production sectors. However, the service-providing industries remained weak. As oil and natural gas industry activity

levels off and the national economy struggles, relatively subdued Texas personal income growth, at 3.7 percent, is expected in 2012.

The outlook is for continued moderate Texas job growth in 2012 and 2013. The rate of employment growth is expected to slow somewhat in response to the nation's economic weakness. Still, Texas job growth is forecast to average 1.5 percent annually over the next two years, resulting in a gain of 309,000 jobs from 2011 to 2013. Even though employment growth will continue to be slower than is typical for a period of recovery, the state's economic production will continue to expand moderately. Supported by productivity gains, Texas' inflation-adjusted Gross State Product (GSP) should grow by about 2.5 percent per year in 2012 and 2013, exceeding the nation's forecasted growth rate by roughly one-half percentage point each year.

The Job Picture by Industry

Nine of the state's 11 major industries added jobs from November 2010 to November 2011. The fastest job growth rate was in the mining and logging industry, dominated by oil and natural gas activity. The industries that lost jobs were government and information (which includes broadcast media, telecommunications and Internet-based services). Federal, state and local governments combined lost 3.4 percent of their jobs from November 2010 to November 2011, losing 63,900 jobs, with nearly four-fifths of these in local government. Private employment increased by 3.4 percent, adding 289,900 jobs.

In the 12 months ending in November 2011, the industry that added the most jobs was trade, transportation and utilities, at 59,600, but the industry that had the fastest growth rate, a robust 19.9 percent, was mining and logging. As in much of the nation, information was by far the weakest major private industry in the state, with a decline of 3.9 percent (7,600 jobs). Professional and business services advanced largely because of

hiring in administrative and support services, including employment services, a sector that often adds temporary and part-time jobs when the economy begins to emerge from a recession. This is due to employers lacking the confidence to hire full-time employees. This industry, accounting for one-eighth of Texas employment, provided nearly one-fourth of the net new jobs. With a gain of 55,100 jobs over the past year, professional and business services job growth was a solid 4.3 percent, with employment services accounting for 15,600 of the job gain.

The rapid growth of mining and logging employment over the past year was propelled by increased oil and natural gas exploration. Firmer market prices and improved technologies underlie the expansion, as evidenced by a 178 percent increase in the number of operating oil and natural gas drilling rigs in the state since the recent low of 329 rigs in June 2009, to 911 rigs in December 2011. Mining and logging added 42,600 jobs over the past year, a job growth rate that was 11 times faster than the job growth of the other 10 industries combined. In November 2011, the state's mining and logging industry job count stood at 256,600.

The broader oil and natural gas industry, which includes mining, petrochemicals, petroleum refining and oil/natural gas-related manufacturing, currently accounts for 15.5 percent of Texas' GSP. It serves as a buttress for the overall state economy when increasing oil and natural gas prices hinder the consumers (businesses and households) of those energy sources. Also, because the industry's share of Texas personal income is more than five times the national share, it has helped Texas to outperform the nation economically.

The Texas construction industry, after shedding 17.5 percent of its workers between May 2008 and February 2010, had job growth of 1.8 percent over the past year, nearly matching that of the overall economy. Most of the construction jobs added were in the con-

struction of buildings (7,500), with 4,600 more added by building equipment contractors. Building finishing contractors and highway, street, and bridge construction contractors lost jobs. A positive sign for the Texas industry is that the total number of multi-family building permits in the past 12 months was up by 50 percent over the count in the previous 12 months, increasing from 18,659 units to 28,021 units. However, the abundant available housing stock continues to suppress single-family housing construction, as shown by the 3 percent decline in the number of single-family building permits over the same period. The median sale price for an existing single-family home in Texas, unlike much of the country, continues to rise slightly, increasing by 1 percent over the past year, and setting the stage for an earlier home building recovery in Texas than elsewhere in the nation. The 10,600 Texas construction jobs added over the past 12 months accounted for three-fifths of the nation's construction job growth. Texas' total construction employment totaled 586,700 in November 2011.

Exports continued to boost Texas manufacturing in calendar 2011. After being battered by the recession and currency fluctuations, the total value of Texas exports increased by 24 percent in 2010 and another 24 percent in 2011, even in the face of economic doldrums in European Union markets. According to the World Institute for Strategic Economic Research (WISER) Trade service, Texas is the nation's leading exporting state, as it has been since 2002. Due in large part to a surge in sales to North American Free Trade Agreement partners and the rising demand for Texas exports in Asia, the value of Texas exports has grown more quickly than the national total. The value of Texas exports are estimated to total \$249 billion in 2011, nearly 17 percent of the U.S. total and 19.6 percent of the state's GSP.

With growth further spurred by strong demand for drilling rigs and equipment for the state's energy industry, the economic value of Texas manufacturing

increased from \$160.7 billion in 2010 to an estimated \$164.4 billion in 2011, according to the U.S. Bureau of Economic Analysis and the Comptroller's economic model. After a small job gain in 2010, Texas manufacturing employment grew by 3.1 percent between November 2010 and November 2011. Some manufacturing sectors continued to lose employment, notably publishing, nonmetallic metals, building materials and chemical manufacturing. Texas' total manufacturing production, as measured by real GSP, increased by 3.2 percent in 2011. The state's manufacturing employment was 835,500 in November 2011.

Among service-providing industries, all except information and government added jobs during the 12 months ending in November 2011. Employment expanded in the: trade, transportation and utilities industry by 59,600; professional and business services by 55,100; leisure and hospitality services by 38,500; and education and health services by 35,400. Financial activities tacked on an additional 17,400 employees, and other services industries grew by 13,100 jobs during the year. Information, the smallest service-providing industry in Texas, contracted for the eleventh consecutive year, losing another 7,600 jobs.

Texas' service-providing industries, with more than 84 percent of the state's total nonfarm employment, uncharacteristically underperformed the goods-producing industries in the rate of job growth over the past year but still accounted for 65 percent of all jobs added. Six of the eight service-providing industries had job gains during the year. Over the past 20 years, average annual job growth in service-providing industries has been 2.2 percent. The 1.7 percent rate of job growth from November 2010 to November 2011 was comparatively weaker.

Government employment in Texas declined by 63,900 jobs, or 3.4 percent, in 2011, which is the result of budget constraints at the federal, state and local levels. Staff reductions and the expiration of federal stimu-

lus incentives led to the loss of 1,600 federal and postal jobs in Texas, even with an increase of 1,100 defense-related jobs. State government, down 3.5 percent, had substantially lower employment, even in higher education and special educational institutions. Local governments, with nearly 69 percent of all Texas government jobs, saw employment fall 3.8 percent during the year.

In light of general economic uncertainty, Texas consumer spending in calendar 2011 alternated between periods of solid growth and periods of austerity related to higher fuel and commodity prices and a propensity for saving. Retail sales spending was decidedly stronger than a year earlier, evidenced by an increase of 10.9 percent in sales tax collections in calendar 2011, but most of the growth was rooted in business spending related to oil and natural gas exploration. Even with substantial Texas job growth in 2011, the jobless rate remains uncomfortably high and the growth in average wages per worker has not kept up with inflation. Even so, state tax collections from motor vehicle sales were especially robust, with an increase of 13.5 percent in calendar 2011, reflecting a backlog of demand following the recessionary years.

Major Initiatives

In recent years, Texas' budget-writing process has focused largely on short-term measures needed to close each successive budget gap. In recognition of this pattern, the Comptroller's office has inaugurated a series of programs designed to provide state policymakers with the information they need for effective, long-term financial planning.

Financial Allocation Study for Texas

Texas public schools account for about 44 percent of Texas' general revenue, and their cost is rising rapidly. Total spending by Texas school districts, from federal, state and local sources, rose by 95 percent from the 1998-99 school year through 2008-09. In the last

decade, this spending rose nearly five times as fast as enrollment.

In response to legislative concerns about the cost-effectiveness of public education, in 2010 the Comptroller's office inaugurated the Financial Allocation Study for Texas (FAST), a detailed and ongoing study of Texas public school funding and its relation to academic achievement, in the interests of guiding both state and local spending in this arena.

The FAST project was developed with the assistance of educational researchers, district leaders and Texas school board members as well as teachers, principals and education groups. FAST rates Texas school districts and campuses to identify those responsible for strong and cost-effective academic growth, based on academic and financial performance indicators developed especially for the study.

An accompanying Web-based tool (www.fastexas.org) allows anyone with Internet access to see the results of the study and to use its data to compare school districts with one another on measures of spending and academic success.

The second annual edition of the FAST report, issued in 2011, gave 46 school districts the highest rating of five stars, compared to 43 districts in the 2010 edition.

The Cost of Federal Regulation

Excessive and poorly considered environmental regulations can have a serious impact on Texas' economic health. More than 100 species found in Texas have received or are slated for federal review within the next five years, with potential consequences that could involve significant economic impacts on the state's landowners, businesses and communities. One species found in the Permian Basin, for instance, has been proposed for listing as an endangered species despite a lack of scientific data — in a region that provides 20 percent of the nation's oil and tens of thousands of Texas jobs.

To help policymakers stay abreast of rapidly evolving environmental regulation, in September 2011 the Comptroller's office debuted Keeping Texas First (www.texasahead.org/texasfirst), a website that tracks proposed endangered species listings and air and water regulation, explains the federal rule-making process and provides detailed case studies outlining the financial impact of such regulation on the state economy.

Tracking the Texas Economy

To help policymakers, businesses and taxpayers understand the complex forces shaping Texas, in February 2012 the Comptroller's office launched The Texas Economy (www.thetexasconomy.org), a comprehensive guide to the Texas economy and the industries, people and other factors that drive it. The regularly updated site provides a wide variety of data and analysis in an easy-to-understand and useful format, including information on key economic indicators, government revenue and spending, demographics, major industries, workforce trends, public education, career training and health care.

The Texas Economy site also spotlights in-depth Comptroller research reports examining issues directly affecting state finances, such as February 2012's *The Impact of the 2011 Drought and Beyond*, discussing the multi-billion-dollar impact of severe drought and governmental water strategies, and upcoming reports on federal health care reform and state and local government bonded indebtedness.

Transparency

The Comptroller's office promotes openness in state and local governments and financial transparency at all levels. The agency's Texas Transparency website (www.texas Transparency.org) incorporates an Open Data Center that offers public access to machine-readable, platform-independent datasets on statewide contracts and bidders' lists, crude oil and natural gas industry

data, tax receipts and more. A Texas EDGE Data Center provides data of interest to economic development officials, including population, employment, income, poverty, property values, sales activity and education information. Another feature, Where the Money Goes, allows the public to search the state check register and track state agency spending in detail.

Another new feature added in November 2011, the Monthly State Revenue Watch (www.window.state.tx.us/finances/revenueWatch), presents detail on net state revenue collections by month of collection and type of revenue source, and allows its users to make side-by-side comparisons to previous-year collections and the Comptroller's revenue estimate.

The Comptroller also encourages Texas local governments to open their books to the public by posting their budgets, annual financial reports and check registers online. Texas Transparency displays the progress local governments are making toward this goal, and gives users direct access to local government websites and their key financial documents. As of Feb. 1, 2012, the Texas Transparency website listed all 254 Texas counties, 570 cities, all 1,033 school districts and 26 special districts such as river and transit authorities. More than 75 percent of these are posting at least one of the three recommended documents, giving taxpayers access to the data they need to see how their tax dollars are being spent.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200, creating the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required

to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

As of January 2012, 86 school districts were parties to 133 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive Annual Financial Report for the fiscal year ended Aug. 31, 2010. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 21 years (fiscal years ended August 1990 through 2010). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,



Susan Combs

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

President

Jeffrey R. Enner

Executive Director



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller of Public Accounts

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth A. Jones
David J. Porter
Barry T. Smitherman
Railroad Commissioners

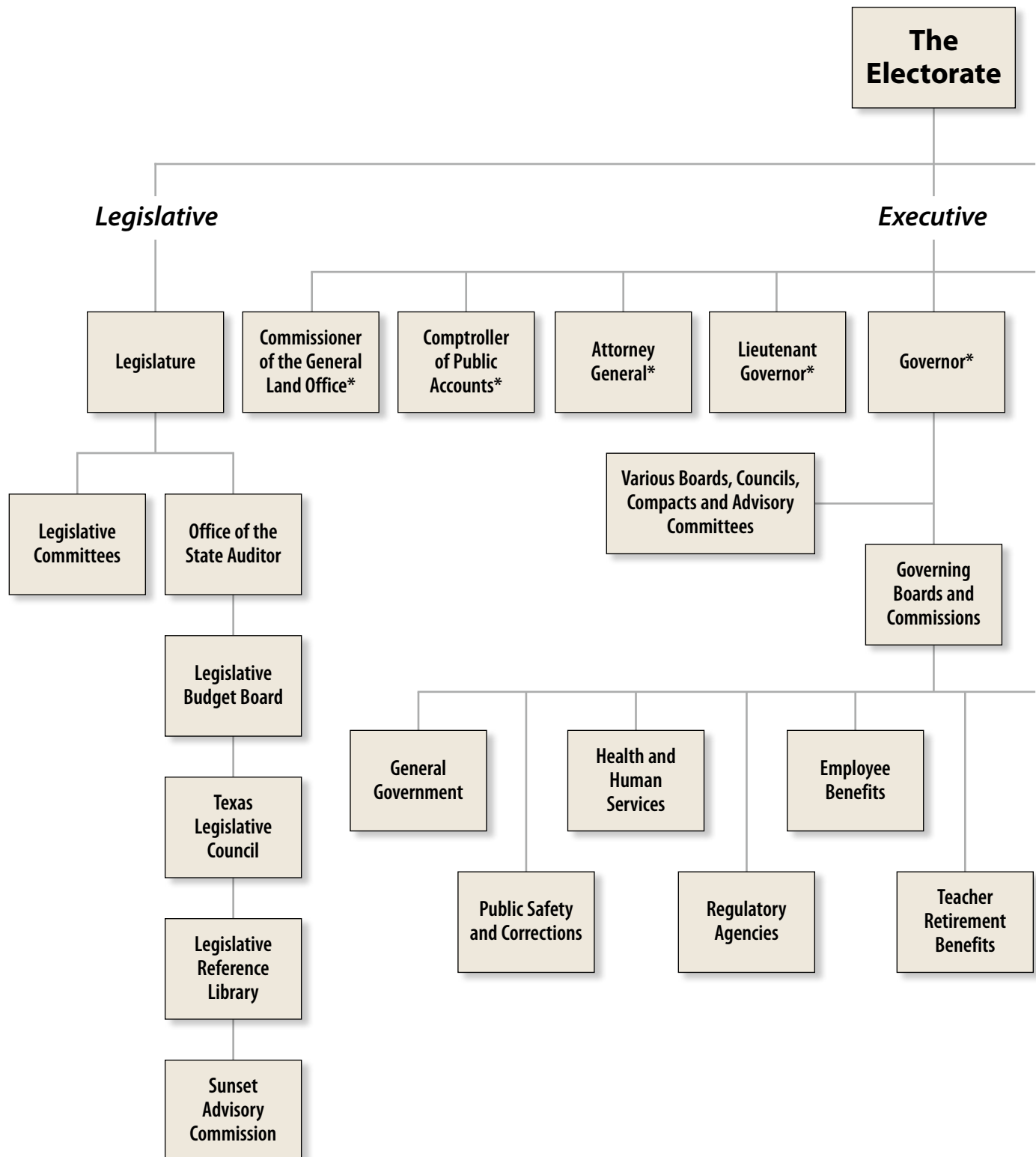
Legislative Lieutenant Governor David Dewhurst
President of the Senate

Joe Straus
Speaker of the House of Representatives

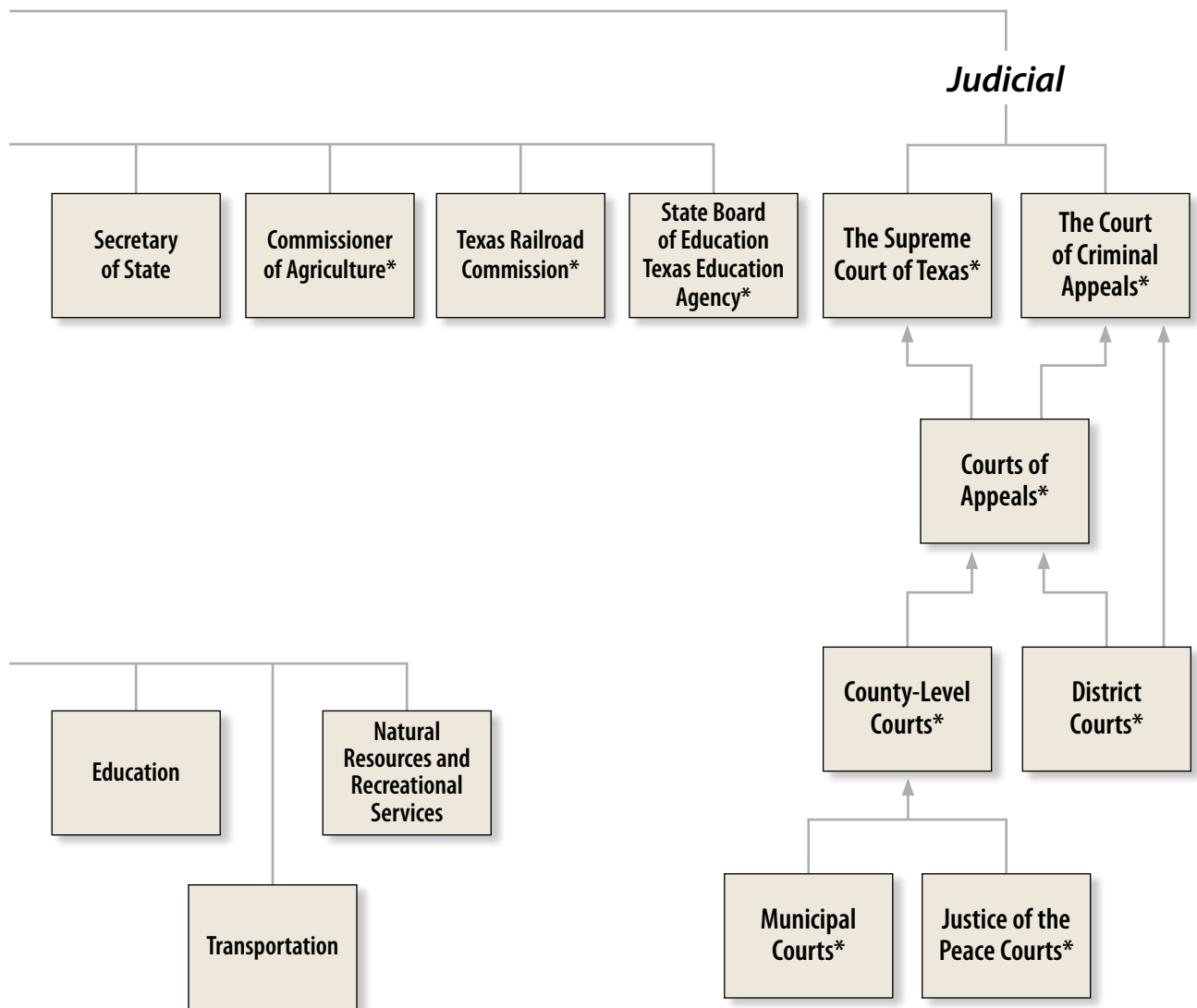
Judicial Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices





Section Two

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas System, which constitutes 69 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 54 percent of the assets of the business-type activities.
- The Texas Lottery Fund, a major enterprise fund, which constitutes 15 percent of the operating revenues of the business-type activities.
- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 7 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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SAO Report No. 12-325

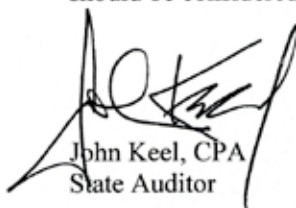
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the State of Texas adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011.

The management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The other supplementary information - combining financial statements and schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



John Keel, CPA
State Auditor

February 21, 2012



Section Two
(continued)

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2011. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2011 report.

Highlights

The state implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal 2011. This statement establishes accounting and financial reporting standards for governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It also clarifies existing governmental fund type definitions.

Government-wide

Net Position

The assets of the state of Texas exceeded its liabilities by \$139.4 billion as of Aug. 31, 2011, an increase of \$7.1 billion or 5.4 percent from fiscal 2010.

Fund Level

Governmental Funds

As of Aug. 31, 2011, the state's governmental funds reported a combined ending fund balance of \$42.1 billion, an increase of \$1.3 billion or 3.2 percent from fiscal 2010. The state reported a positive unassigned fund balance of \$338.7 million in fiscal 2011.

Proprietary Funds

The proprietary funds reported a net position of \$42.1 billion as of Aug. 31, 2011, an increase of \$4.7 billion or 12.6 percent from fiscal 2010.

Long-Term Debt

The state's total bonds outstanding increased by \$3 billion or 8.4 percent during fiscal 2011. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$5.4 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts: (1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information presenting combining statements and schedules. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources

measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows, liabilities and deferred inflows.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government; education; employee benefits; teacher retirement benefits; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services

it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state includes 21 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it

provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the government's activities, reported in the government-wide statement of net position and the government-wide statement of activities, and the governmental funds. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance state

operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state on Aug. 31, 2011, were \$211.9 billion, an increase of \$2.9 billion or 1.4 percent. Total liabilities as of Aug. 31, 2011, were \$73.1 billion, a decrease of \$4.1 billion or 5.4 percent. Net position was affected by a number of factors. Cash and cash equivalents decreased by \$8.3 billion from fiscal 2010 and noncurrent investments increased by \$7 billion. Net capital assets increased by \$5 billion. The major components of this increase were additions to the state's highway system and college and university building and building improvement projects. Current liabilities decreased by \$8.6 billion, as \$7.8 billion in tax and revenue anticipation notes issued in the latter part of fiscal 2010 were retired. There was an increase in total bond debt of \$3 billion as well, with increases to both general obligation and revenue bonds. The state's bonded indebtedness was \$38.7 billion, which included new issuances of \$5.4 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$2.4 billion in bonded debt was retired or refunded. Net position was \$139.4 billion in fiscal 2011, an increase of \$7.1 billion or 5.4 percent. Of the state's net position, \$71.2 billion was invested in capital assets, net of related debt, while \$56.4 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$11.8 billion.

Statement of Net Position

August 31, 2011 and 2010 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
ASSETS						
Assets Other Than Capital Assets	\$ 56,993,151	\$ 63,799,804	\$ 56,082,589	\$ 51,278,165	\$ 113,075,740	\$ 115,077,969
Capital Assets	75,667,494	72,418,557	23,189,842	21,475,474	98,857,336	93,894,031
Total Assets	<u>132,660,645</u>	<u>136,218,361</u>	<u>79,272,431</u>	<u>72,753,639</u>	<u>211,933,076</u>	<u>208,972,000</u>
DEFERRED OUTFLOWS			575,740	580,611	575,740	580,611
LIABILITIES						
Current Liabilities	15,466,022	23,577,732	9,869,570	10,323,540	25,335,592	33,901,272
Noncurrent Liabilities	19,941,936	17,735,541	27,844,373	25,634,302	47,786,309	43,369,843
Total Liabilities	<u>35,407,958</u>	<u>41,313,273</u>	<u>37,713,943</u>	<u>35,957,842</u>	<u>73,121,901</u>	<u>77,271,115</u>
DEFERRED INFLOWS				4,618		4,618
NET POSITION						
Invested in Capital Assets,						
Net of Related Debt	61,917,432	60,743,457	9,242,552	7,933,135	71,159,984	68,676,592
Restricted	32,013,661	26,136,214	24,376,167	22,209,032	56,389,828	48,345,246
Unrestricted	3,321,594	8,025,417	8,515,509	7,229,623	11,837,103	15,255,040
Total Net Position	<u>\$ 97,252,687</u>	<u>\$ 94,905,088</u>	<u>\$ 42,134,228</u>	<u>\$ 37,371,790</u>	<u>\$ 139,386,915</u>	<u>\$ 132,276,878</u>

Changes in Net Position

The state's net position for fiscal 2011 increased by \$7.1 billion. The state earned program revenues of \$89.2 billion and general revenues of \$42.4 billion, for total revenues of \$131.6 billion, an increase of \$10.1 billion or 8.4 percent from fiscal 2010. The major components of this increase were operating grants and contributions, which had an increase of \$4.9 billion, and taxes, with an increase of \$4.1 billion. Sales tax collections increased \$2.2 billion, federal revenues increased \$1.6 billion and interest and investment income produced gains of \$3.1 billion. These increases offset smaller gains or losses in other revenue areas for operating grants.

The expenses of the state were \$124.7 billion, an increase of \$4.6 billion or 3.8 percent. The expense fluctuations in governmental activities are largely attributable to education and health and human services. Education had equal increases of more than \$1 billion both for local school districts and higher education. In business-type activities there was a \$1.8 billion decrease in unemployment benefit payments.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. Tax collections increased, mostly due to the sales tax. Interest and investment income improved primarily due to market changes. The health and human services and education functions were the largest benefactors.

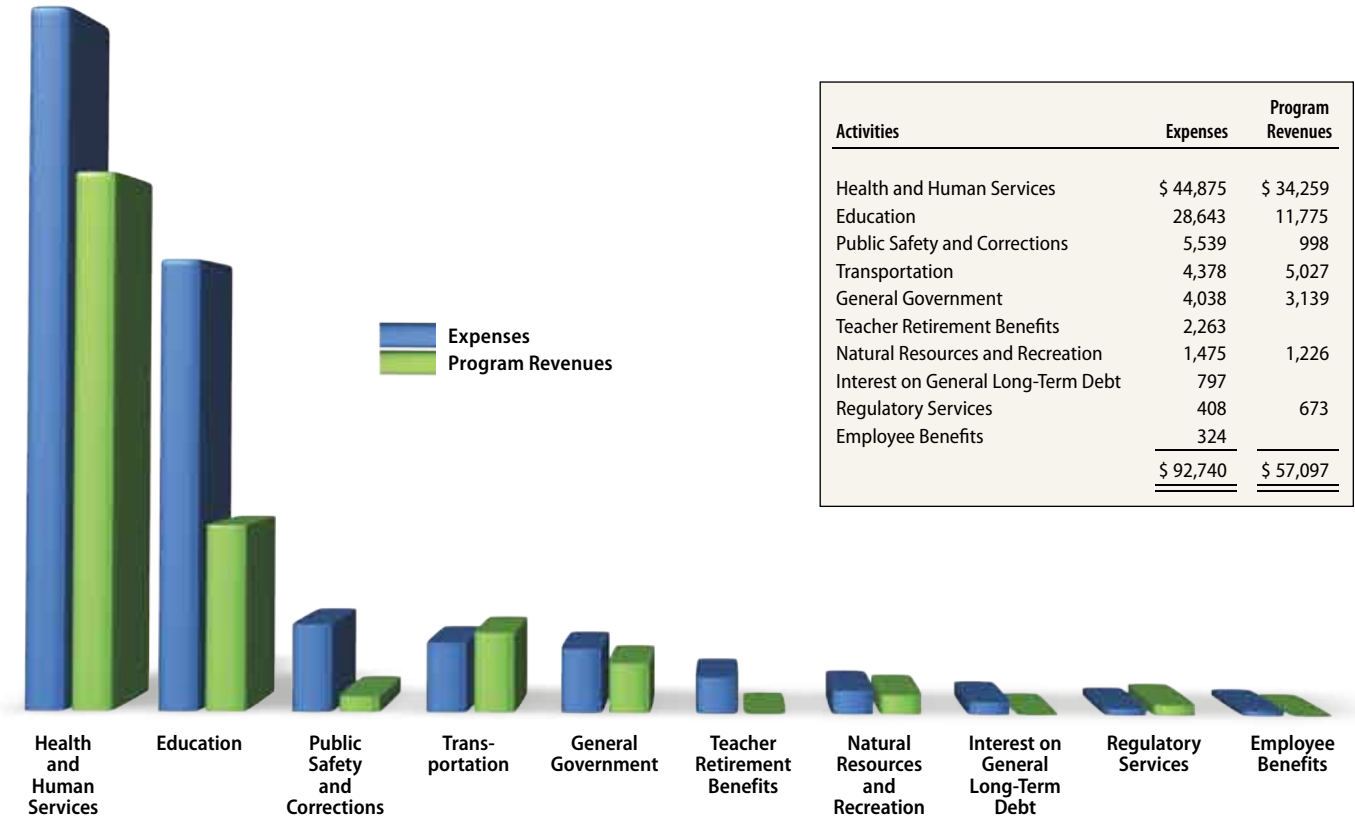
Changes in Net Position

For the Fiscal Years Ended August 31, 2011 and 2010 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Charges for Services	\$ 7,337,119	\$ 6,752,075	\$ 17,682,518	\$ 16,013,379	\$ 25,019,637	\$ 22,765,454
Operating Grants and Contributions	47,220,463	43,148,227	14,103,243	13,292,594	61,323,706	56,440,821
Capital Grants and Contributions	2,538,949	2,453,183	281,741	305,669	2,820,690	2,758,852
Total Program Revenues	<u>57,096,531</u>	<u>52,353,485</u>	<u>32,067,502</u>	<u>29,611,642</u>	<u>89,164,033</u>	<u>81,965,127</u>
General Revenues:						
Taxes	39,661,587	35,590,034			39,661,587	35,590,034
Unrestricted Investment Earnings	334,621	575,642	86,295	134,195	420,916	709,837
Settlement of Claims	584,305	925,676	1,215	1,384	585,520	927,060
Gain on Sale of Capital Assets	99		1		100	
Other General Revenues	1,533,427	2,017,783	222,640	241,013	1,756,067	2,258,796
Total General Revenues	<u>42,114,039</u>	<u>39,109,135</u>	<u>310,151</u>	<u>376,592</u>	<u>42,424,190</u>	<u>39,485,727</u>
Total Revenues	<u>99,210,570</u>	<u>91,462,620</u>	<u>32,377,653</u>	<u>29,988,234</u>	<u>131,588,223</u>	<u>121,450,854</u>
EXPENSES						
General Government	4,037,805	3,451,868	150,406	162,620	4,188,211	3,614,488
Education	28,643,283	27,344,876	22,226,690	20,943,292	50,869,973	48,288,168
Employee Benefits	324,477	252,457			324,477	252,457
Teacher Retirement Benefits	2,262,638	2,200,408			2,262,638	2,200,408
Health and Human Services	44,875,285	41,487,191	6,055,958	7,826,452	50,931,243	49,313,643
Public Safety and Corrections	5,539,155	6,231,847	86,262	87,120	5,625,417	6,318,967
Transportation	4,377,794	4,146,987	209,880	206,822	4,587,674	4,353,809
Natural Resources and Recreation	1,474,675	1,559,708	423,140	353,641	1,897,815	1,913,349
Regulatory Services	408,115	447,557			408,115	447,557
Interest on General Long-Term Debt	797,030	755,314			797,030	755,314
Lottery			2,783,798	2,681,627	2,783,798	2,681,627
Total Expenses	<u>92,740,257</u>	<u>87,878,213</u>	<u>31,936,134</u>	<u>32,261,574</u>	<u>124,676,391</u>	<u>120,139,787</u>
Excess (Deficiency) Before Contributions, Special Items and Transfers	<u>6,470,313</u>	<u>3,584,407</u>	<u>441,519</u>	<u>(2,273,340)</u>	<u>6,911,832</u>	<u>1,311,067</u>
Capital Contributions	108,119	30,845	3,045		111,164	30,845
Contributions to Permanent and Term Endowments			126,971	136,577	126,971	136,577
Transfers	(4,179,888)	(4,491,627)	4,179,888	4,491,627		
Change in Net Position	<u>2,398,544</u>	<u>(876,375)</u>	<u>4,751,423</u>	<u>2,354,864</u>	<u>7,149,967</u>	<u>1,478,489</u>
Net Position, Beginning Balance	94,905,088	95,862,006	37,371,790	35,017,838	132,276,878	130,879,844
Restatements	(50,945)	(80,543)	11,015	(912)	(39,930)	(81,455)
Net Position, Beginning Balance, as Restated	<u>94,854,143</u>	<u>95,781,463</u>	<u>37,382,805</u>	<u>35,016,926</u>	<u>132,236,948</u>	<u>130,798,389</u>
Net Position, Ending Balance	<u>\$ 97,252,687</u>	<u>\$ 94,905,088</u>	<u>\$ 42,134,228</u>	<u>\$ 37,371,790</u>	<u>\$ 139,386,915</u>	<u>\$ 132,276,878</u>

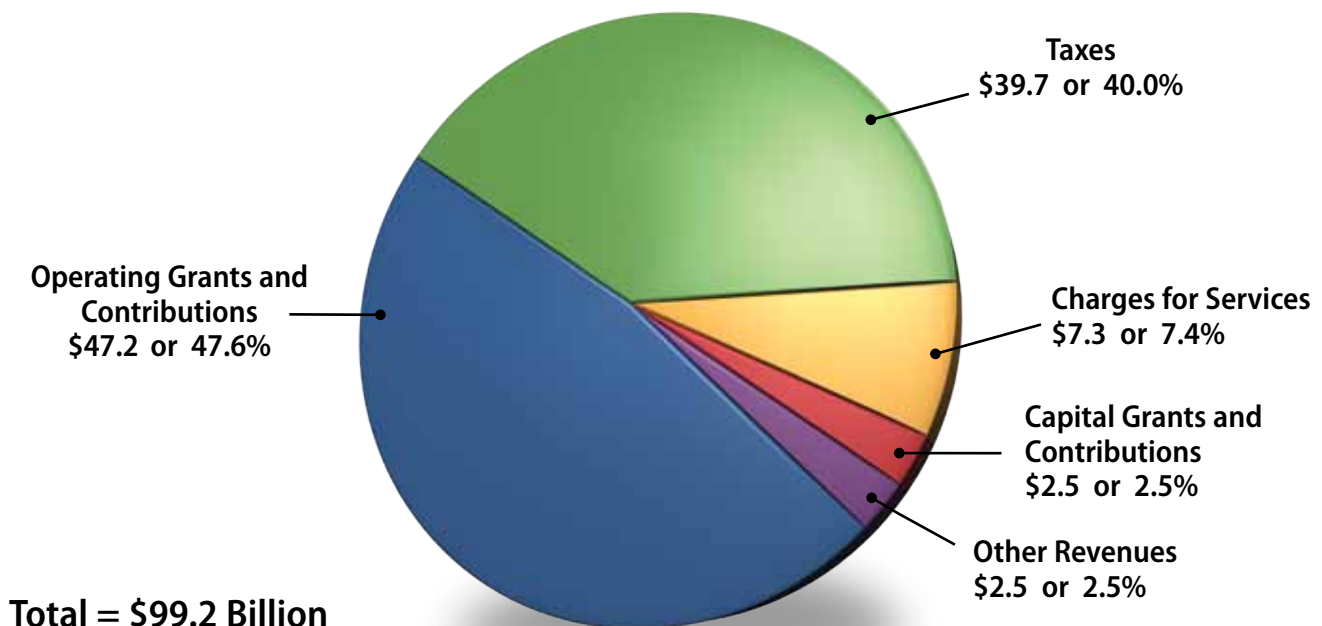
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2011 (In Millions)



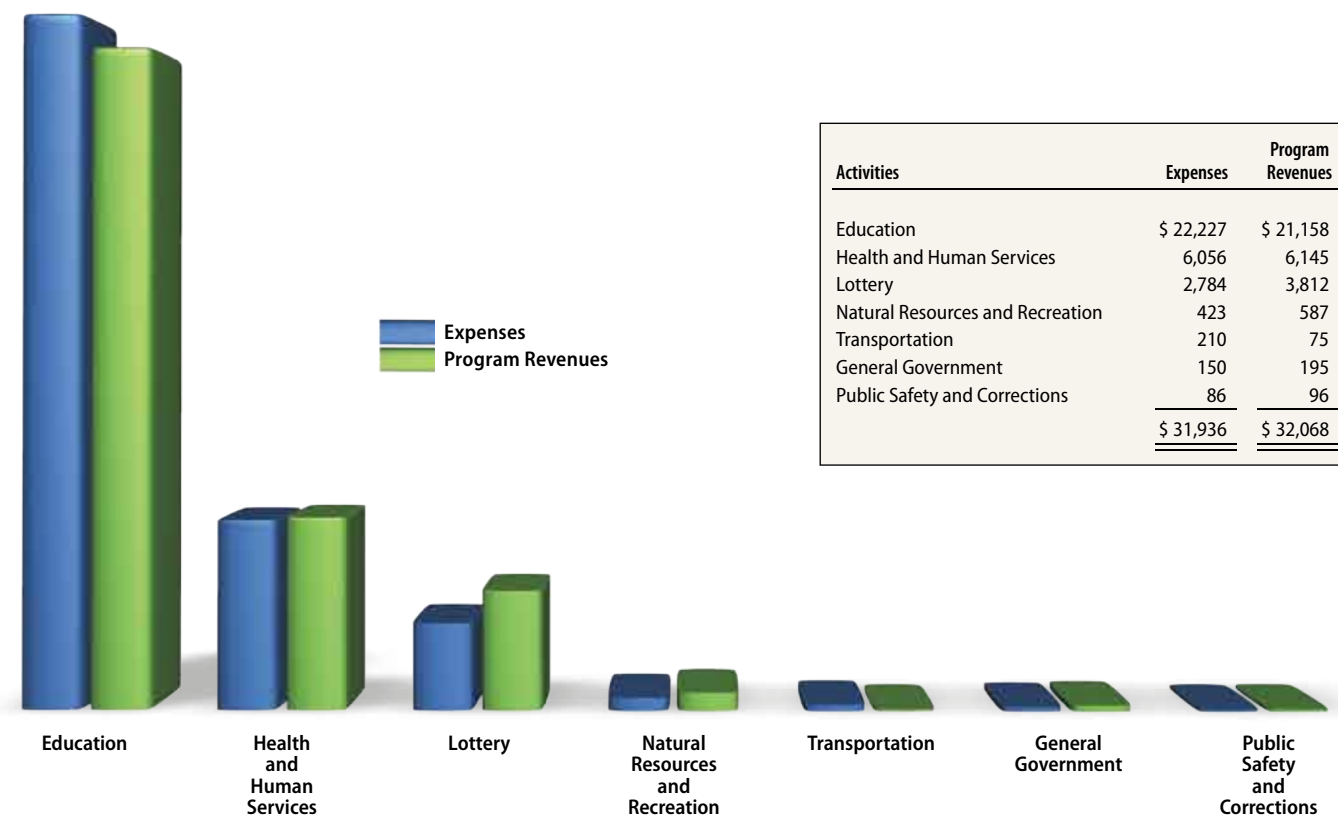
Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2011 (In Billions)*



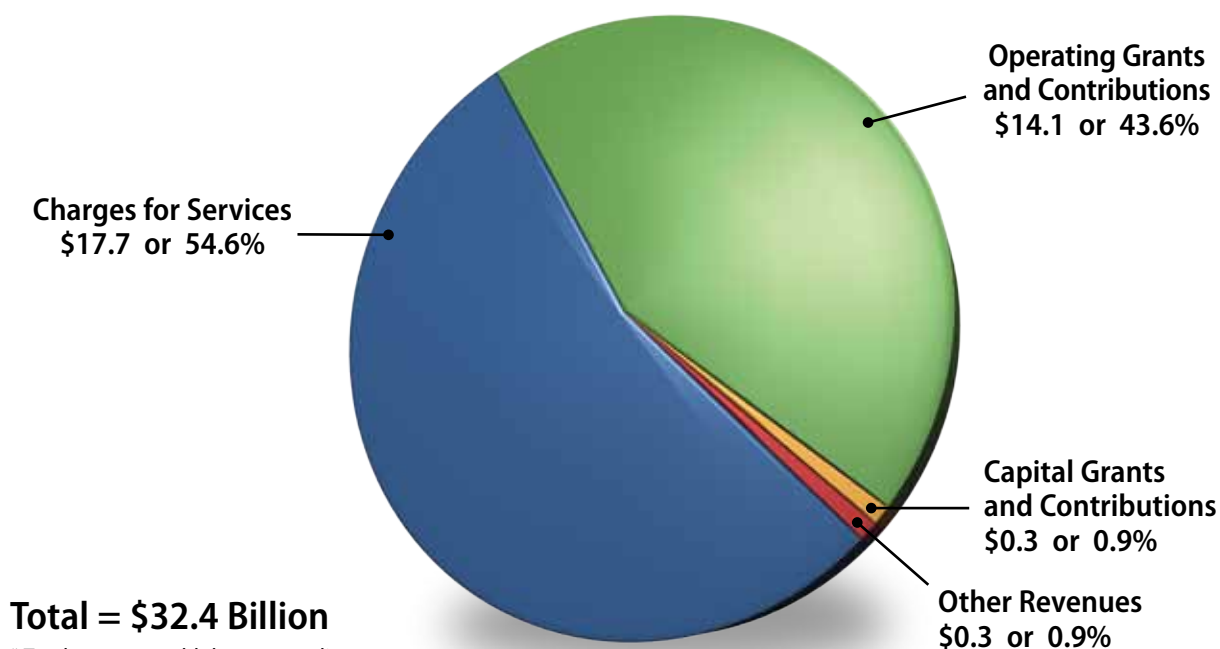
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2011 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2011 (In Billions)*



Governmental Activities

The governmental activities program revenue was \$57 billion, including charges for services of \$7.3 billion, operating grants and contributions of \$47.2 billion and capital grants and contributions of \$2.5 billion. The largest increase, \$4.1 billion, was for operating grants and contributions, which includes revenues from federal funds and interest and investment income. Changes in general revenue sources were relatively stable. Taxes had the only significant increase from general revenue sources, with the largest increase in sales tax revenue.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 4,037,805	\$ 899,169
Education	28,643,283	16,868,068
Employee Benefits	324,477	324,377
Teacher Retirement Benefits	2,262,638	2,262,638
Health and Human Services	44,875,285	10,616,166
Public Safety and Corrections	5,539,155	4,541,649
Transportation	4,377,794	(649,560)
Natural Resources and Recreation	1,474,675	248,481
Regulatory Services	408,115	(264,292)
Interest on General Long-Term Debt	797,030	797,030
Total	<u>\$ 92,740,257</u>	<u>\$ 35,643,726</u>

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 150,406	\$ (44,733)
Education	22,226,690	1,068,790
Health and Human Services	6,055,958	(89,226)
Public Safety and Corrections	86,262	(9,474)
Transportation	209,880	134,973
Natural Resources and Recreation	423,140	(163,634)
Lottery	2,783,798	(1,028,064)
Total	<u>\$ 31,936,134</u>	<u>\$ (131,368)</u>

Governmental activities expenses were \$92.7 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation and regulatory services functions, which report slight surpluses. The education and health and human services functions account for 79.3 percent of governmental activities expenses and 77.1 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$32.1 billion, including charges for services of \$17.7 billion, operating grants and contributions of \$14.1 billion and capital grants and contributions of \$281.7 million. The total expenses for business-type activities were \$31.9 billion. The largest changes occurred in education, with a \$1.3 billion increase for colleges and universities, and in the health and human services function, where there was a decrease of \$1.8 billion in unemployment benefit payments as more claimants exhausted their benefits. There was a total gain from the government's business-type activities of \$4.8 billion in comparison to the prior year's gain of \$2.4 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2011, governmental funds reported fund balances of \$42.1 billion. The general fund reported a positive \$7.2 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2011, was \$7.2 billion, a decrease of \$1.2 billion from fiscal 2010. \$5.6 billion is constrained by the state

constitution, state statute, and federal rule or bond covenants. The unassigned fund balance was \$1.1 billion. Contributing to the lower balance were increases of \$3.6 billion in spending for health and human services to meet needs due to reduced economic conditions. There were increases in federal revenues of \$2.1 billion. Increases in supplemental nutrition assistance programs (SNAP), child nutrition programs and Medicare programs accounted for \$2 billion of this increase.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2011, was \$751.5 million, a decrease of \$533.5 million from \$1.3 billion as of Aug. 31, 2010. Cash and cash equivalents decreased \$357.5 million as highway reconstruction and maintenance costs increased by \$165.1 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2011, totaled \$26.9 billion, an increase of \$2.5 billion since Aug. 31, 2010. This increase was primarily attributable to interest and investment income of \$3.1 billion, an increase of \$1.6 billion. Value in the fund provided \$1.1 billion in transfers to provide funding for public education. The PSF also supports the state's public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2011, \$52.7 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported net position of \$42.1 billion as of Aug. 31, 2011, an increase of \$4.7 billion from fiscal 2010. 92.8 percent of the reported net position in proprietary funds is held by the state's public colleges and universities.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2011, totaled \$39.1 billion, an increase of \$4.2 billion from Aug. 31, 2010. There were increases of approximately \$1 billion for both operating revenues and operating expenses. There was a \$1.4 billion increase in nonoperating investment and interest income in fiscal 2011, compared to interest and investment gains of \$3 billion in fiscal 2010. Improving market conditions produced better investment returns. The permanent university fund posted a net investment return of over 14.6 percent. This endowment fund contributes to the support of 24 institutions in the University of Texas System and the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$(812.9) million as of Aug. 31, 2011, an increase of \$402.2 million from \$(1.2) billion as of Aug. 31, 2010. During fiscal 2011, unemployment taxes collected increased \$568.1 million from \$2.1 billion in 2010. Benefits dropped \$1.8 billion as more claimants exhausted their benefits and the Federal Additional Compensation program, which provided an additional \$25 weekly benefit, ended in 2011. In December 2010, \$2 billion in revenue bonds were issued to repay federal advances and to provide state funded unemployment benefits.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of \$118 million on Aug. 31, 2011, as compared to \$112.1 million at the end of fiscal 2010. Lottery sales for the year ended Aug. 31, 2011, totaled

\$3.8 billion, an increase of \$72.9 million from fiscal 2010. Distributions to the foundation school fund for fiscal 2011 totaled \$961.9 million.

The lottery fund's short and long-term investments approximated \$1.3 billion. The lottery fund's liabilities include amounts owed to the state's foundation school fund for August accrued sales for fiscal 2011, and for investment purchases, vendor payables and prize payment obligations.

Fiduciary Funds

Fiduciary funds reported \$147.4 billion in net position as of Aug. 31, 2011, an increase of \$13.2 billion from \$134.2 billion in fiscal 2010.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$130.6 billion, an increase of \$13.6 billion from the \$117 billion reported in fiscal 2010. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal 2011, primarily from recovering market conditions affecting investment assets. Contributions from all sources increased \$229.8 million from fiscal 2010, while benefit payments increased \$679.7 million. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 15.5 percent and 12.6 percent, respectively, compared to the previous year's returns of 10.7 and 6.7 percent.

External Investment Trust Fund

The external investment trust fund reported a total net position of \$14 billion in fiscal 2011, a decrease of \$668.4 million from fiscal 2010. The decrease in net position is due to withdrawals by local government entities as surpluses continued to decline and local needs had to be addressed.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$2.8 billion in fiscal 2011, an increase of \$328.9 million from fiscal 2010. Increases to net position were due to a combination of factors including higher rates of return on investments due to market recovery and net appreciation in value.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$4 billion.

There was a negative \$2.2 billion variance between the actual to final budget revenues. The most negative revenue variance occurred with federal revenues, reporting a \$1.3 billion difference, actual below final budget.

The largest negative expenditure variances related to the education and health and human services functions.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2011, the state had \$98.9 billion in net capital assets, of which \$60.8 billion was infrastructure. This total represents an increase of \$1.9 billion in infrastructure capital assets or 3.2 percent from fiscal 2010. Included in this amount are additions to the state's highway system of \$1.7 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$1.9 billion to buildings and building improvements.

To ensure future availability of essential services and finance highway capital improvements, TxDOT

Capital Assets – Net of Depreciation and Amortization

August 31, 2011 and 2010 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land and Land Improvements	\$ 8,915,039	\$ 8,296,693	\$ 1,524,203	\$ 1,503,215	\$ 10,439,242	\$ 9,799,908
Infrastructure	58,354,931	56,541,708	2,416,197	2,357,321	60,771,128	58,899,029
Construction in Progress	5,033,330	4,208,127	2,635,344	3,175,537	7,668,674	7,383,664
Buildings and Building Improvements	2,327,370	2,387,651	12,939,434	11,058,779	15,266,804	13,446,430
Facilities and Other Improvements	70,075	78,337	822,863	834,709	892,938	913,046
Furniture and Equipment	242,873	228,618	1,435,699	1,306,460	1,678,572	1,535,078
Vehicles, Boats and Aircraft	418,239	406,739	65,513	65,323	483,752	472,062
Other Capital Assets	174,310	166,470	941,698	909,610	1,116,008	1,076,080
Intangible Capital Assets, Net	131,327	104,214	408,891	264,520	540,218	368,734
Total Capital Assets	<u>\$ 75,667,494</u>	<u>\$ 72,418,557</u>	<u>\$ 23,189,842</u>	<u>\$ 21,475,474</u>	<u>\$ 98,857,336</u>	<u>\$ 93,894,031</u>

made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$7.2 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state. This amount is not recognized as a liability because the terms of the contracts or agreements were not met and benefits were not received as of the end of fiscal 2011.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statement of net position.

The state accounts for its system of roads and highways using the modified approach. TxDOT developed a system of management, the Texas Maintenance Assessment Program (TxMAP), designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and its Central Texas

Turnpike System at a condition level of 80 percent. The condition assessment results for fiscal 2011 reflect condition levels of 83 percent (83.6 percent in fiscal 2010) for the interstate system, 78.5 percent (77.9 percent for fiscal 2010) for the non-interstate system and 89.9 percent (87.9 percent for fiscal 2010) for the Central Texas Turnpike System.

In fiscal 2011, the estimated maintenance expenditures required to maintain the highway system at or above the adopted condition levels for interstate highways were \$604.8 million, \$3.3 billion for the non-interstate system and \$11.6 million for the Central Texas Turnpike System. Actual expenditures were \$361.8 million for the interstate system, \$1.5 billion for the non-interstate system and \$11.4 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue

bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's and AAA by Fitch Ratings as of August 2011. During fiscal 2011, Texas' state agencies and institutions of higher education issued \$5.4 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$2.2 billion of state bonds issued in fiscal 2011. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$3.2 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$525.7 million in general obligation bonds and \$862.3 million in revenue bonds. Also, \$276.4 million in general obligation bonds and \$706.2 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2011, was \$14.5 billion. This represents an increase of \$1.4 billion or 11.1 percent from fiscal 2010. An additional \$11.5 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$24.2 billion, which is an increase of \$1.6 billion or 6.9 percent from fiscal 2010. The net increase of \$1.6 billion for revenue bonds includes issuances of \$2 billion for the workers' compensation insurance fund. The net increase also includes \$911.9 million of issuances for the state's institutions of higher education for campus improvements or associated with refundings to take advantage of lower interest rates. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition and Outlook

Texas' economic growth, as evidenced by employment and gross state product (GSP), was moderately positive in 2011. During the period from November 2010 to November 2011, Texas' nonfarm employment increased by 226,000, a 2.2 percent year-to-year growth rate. The unemployment rate of 8.1 percent improved by only 0.2 percentage points during this period.

The nation, and Texas, experienced slower-than-average growth during the current economic recovery. Texas' real GSP increased by 2.4 percent in 2011, compared to 1.6 percent nationally. Another active year for the oil and natural gas industry, a relatively healthier housing market and robust export performance have allowed the state to continue the stronger growth path. On the downside, high unemployment levels have kept businesses and consumers uncertain about current conditions and the economic outlook.

Nine of the state's 11 major industries added jobs in 2011. The fastest job growth rate was in the mining (oil and natural gas) and logging industry (19.9 percent), while trade, transportation and utilities added the largest number of jobs (59,600). Information, which includes the broadcast media, telecommunications and internet-based services, lost 3.9 percent of its jobs, and budget constraints caused federal, state and local governments to combine for the largest employment contraction (63,900 jobs) among Texas industries.

The state's export sales reached another record high during the year and now account for nearly one-fifth of the state's GSP. Texas continues to lead all other states in the value of its export trade. Although the U.S. dollar is improving in value against the Euro, expectations are that the dollar will continue its slide relative to other world currencies, and this will fuel ongoing Texas export growth.

The current economic forecast foresees continued economic improvement in 2012, but it will remain a comparatively mild economic recovery. Like the nation,

Outstanding Bonded Debt

August 31, 2011 and 2010 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds Payable	\$ 11,519,544	\$ 10,085,579	\$ 2,955,651	\$ 2,943,752	\$ 14,475,195	\$ 13,029,331
Revenue Bonds Payable	5,455,607	5,620,060	18,766,862	17,042,975	24,222,469	22,663,035
Total Bonds Payable	<u>\$ 16,975,151</u>	<u>\$ 15,705,639</u>	<u>\$ 21,722,513</u>	<u>\$ 19,986,727</u>	<u>\$ 38,697,664</u>	<u>\$ 35,692,366</u>

the state's recovery will be grounded in an economy struggling with high unemployment rates. Texas especially will be challenged with a labor force expanded by new residents looking for work, indicating the unemployment rate will remain relatively high for another year. Consumer and business spending is forecast to expand in 2012 as interest rates will remain low. In sum, Texas' recovery will continue to outpace that of the nation for the same reasons as in the past. These include continued migration into the state, an export-conducive location in the nation's healthiest economic region, an experienced workforce, comparatively healthy real estate markets and relatively low costs for businesses.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.



Section Two
(continued)

BASIC
FINANCIAL
STATEMENTS

STATE OF TEXAS

Statement of Net Position

August 31, 2011 (Amounts in Thousands)

		Primary Government			Component Units
		Governmental Activities	Business-Type Activities*	Total	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 16,143,160	\$ 4,327,775	\$ 20,470,935	\$ 967,703	
Short-Term Investments	670,980	862,283	1,533,263	736,562	
Securities Lending Collateral	310,965	524,017	834,982		
Receivables:					
Taxes (Note 24)	2,821,330		2,821,330		
Federal	3,272,460	896,713	4,169,173	67,423	
Other Intergovernmental	697,948	55,391	753,339	12,701	
Accounts	746,736	1,582,556	2,329,292	196,807	
Interest and Dividends	100,434	129,453	229,887	9,047	
Gifts	458	184,903	185,361		
Investment Trades	34,432	514,484	548,916		
Other	75,189	311,951	387,140	254	
From Fiduciary Funds	82,646	502	83,148		
Due From Primary Government (Note 12)				525	
Due From Component Units (Note 12)	1	55	56		
Inventories	293,393	139,127	432,520	3,879	
Prepaid Items	428	113,739	114,167	33,929	
Loans and Contracts	98,751	289,611	388,362	3,850	
Other Current Assets	68	347,084	347,152	2,103	
Restricted:					
Cash and Cash Equivalents	11,152	2,941,366	2,952,518	47,937	
Short-Term Investments		300,522	300,522		
Loans and Contracts	70,484	76,237	146,721	1,155	
Total Current Assets	25,431,015	13,597,769	39,028,784	2,083,875	
Noncurrent Assets:					
Internal Balances (Note 12)	20,286	(20,286)			
Loans and Contracts	2,697,629	3,822,846	6,520,475	54,675	
Investments	27,214,759	6,034,461	33,249,220	6,239	
Receivables:					
Taxes (Note 24)	31,256		31,256		
Federal	24,736		24,736		
Gifts		236,881	236,881		
Other	231,535	651	232,186	2,222	
Restricted:					
Cash and Cash Equivalents		211,715	211,715		
Short-Term Investments		4,767	4,767		
Investments		28,463,177	28,463,177	249,468	
Receivables		159,374	159,374		
Loans and Contracts	1,186,520	3,191,026	4,377,546	10,416	
Other	90,266	4,863	95,129		
Assets Held in Trust		3,145	3,145		
Net Pension Asset (Note 9)	4,997		4,997		
Deferred Charges	43,831	57,292	101,123		
Other Noncurrent Assets	16,321	314,908	331,229	8,884	
Capital Assets: (Note 2)					
Non-Depreciable or Non-Amortizable	63,865,844	6,212,733	70,078,577	4,918	
Depreciable or Amortizable, Net	11,801,650	16,977,109	28,778,759	59,134	
Total Noncurrent Assets	107,229,630	65,674,662	172,904,292	395,956	
Total Assets	132,660,645	79,272,431	211,933,076	2,479,831	
DEFERRED OUTFLOWS					
Deferred Outflow of Resources (Note 7)		575,740	575,740		
Total Deferred Outflow of Resources	0	575,740	575,740	0	

Concluded on the following page

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2011 (Amounts in Thousands)

August 31, 2011 (Amounts in Thousands)		Primary Government		
	Governmental Activities	Business-Type Activities*	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 5,680,070	\$ 1,641,332	\$ 7,321,402	\$ 278,260
Payroll	657,923	721,518	1,379,441	745
Other Intergovernmental	1,184,278	18,354	1,202,632	
Federal	155	43,332	43,487	74,222
Investment Trades	205,183	341,033	546,216	
Interest	386,983	63,908	450,891	2,959
Tax Refunds (Note 24)	662,322		662,322	
Annuities		12,687	12,687	
To Fiduciary Funds	85,903		85,903	
Internal Balances (Note 12)	772,724	(772,724)		
Due To Primary Government (Note 12)				56
Due To Component Units (Note 12)	525		525	
Unearned Revenue	3,809,786	2,701,300	6,511,086	245,525
Obligations/Reverse Repurchase Agreement	65,653		65,653	
Obligations/Securities Lending	410,746	524,017	934,763	
Claims and Judgments (Note 5)	52,727	15,709	68,436	
Capital Lease Obligations (Note 5, 8)	4,863	2,765	7,628	48
Employees' Compensable Leave (Note 5)	467,180	345,984	813,164	3,517
Notes and Loans Payable (Note 5)	136,639	905,076	1,041,715	11,468
General Obligation Bonds Payable (Note 5, 6)	352,500	118,614	471,114	
Revenue Bonds Payable (Note 5, 6)	176,724	2,241,872	2,418,596	42,840
Pollution Remediation Obligation (Note 5)	41,542	20	41,562	
Liabilities Payable From Restricted Assets (Note 5)		511,791	511,791	
Funds Held for Others		142,277	142,277	264
Hedging Derivative Liability (Note 7)		4,740	4,740	
Other Current Liabilities	311,596	285,965	597,561	297,665
Total Current Liabilities	15,466,022	9,869,570	25,335,592	957,569
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	95,246	44,521	139,767	
Capital Lease Obligations (Note 5, 8)	9,314	17,719	27,033	95
Employees' Compensable Leave (Note 5)	251,662	338,443	590,105	2,168
Notes and Loans Payable (Note 5)	1,013,314	1,100,643	2,113,957	61,738
General Obligation Bonds Payable (Note 5, 6)	11,167,044	2,837,037	14,004,081	
Revenue Bonds Payable (Note 5, 6)	5,278,883	16,524,990	21,803,873	293,669
Pollution Remediation Obligation (Note 5)	222,264		222,264	
Liabilities Payable From Restricted Assets (Note 5)		3,049,742	3,049,742	50,080
Assets Held for Others		823,547	823,547	
Net Pension Obligation (Note 9)	1,904,209		1,904,209	
Net OPEB Obligation (Note 11)		2,243,461	2,243,461	
Hedging Derivative Liability (Note 7)		571,000	571,000	
Other Noncurrent Liabilities		293,270	293,270	226,202
Total Noncurrent Liabilities	19,941,936	27,844,373	47,786,309	633,952
Total Liabilities	35,407,958	37,713,943	73,121,901	1,591,521
NET POSITION				
Invested in Capital Assets, Net of Related Debt	61,917,432	9,242,552	71,159,984	57,656
Restricted for:				
Education	302,527	2,581,486	2,884,013	101,319
Debt Service	1,554,994	383,778	1,938,772	
Capital Projects	868,702	394,517	1,263,219	
Veterans Land Board Housing Programs		691,159	691,159	
Unemployment Trust Fund		937,245	937,245	
Funds Held as Permanent Investments:				
Nonexpendable	12,140,171	12,954,190	25,094,361	
Expendable	15,572,174	6,391,309	21,963,483	
Other	1,575,093	42,483	1,617,576	217,238
Unrestricted	3,321,594	8,515,509	11,837,103	512,097
Total Net Position	\$ 97,252,687	\$ 42,134,228	\$ 139,386,915	\$ 888,310

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 4,037,805	\$ 1,019,521	\$ 2,119,103	\$ 12
Education	28,643,283	632,584	11,142,631	
Employee Benefits	324,477	100		
Teacher Retirement Benefits	2,262,638			
Health and Human Services	44,875,285	2,101,440	32,157,319	360
Public Safety and Corrections	5,539,155	330,198	667,308	
Transportation	4,377,794	1,999,695	490,483	2,537,176
Natural Resources and Recreation	1,474,675	587,423	637,370	1,401
Regulatory Services	408,115	666,158	6,249	
Interest on General Long-Term Debt	797,030			
Total Governmental Activities	92,740,257	7,337,119	47,220,463	2,538,949
Business-Type Activities:				
General Government	150,406	49,717	145,422	
Education*	22,226,690	10,931,371	9,944,818	281,711
Health and Human Services	6,055,958	2,675,581	3,469,603	
Public Safety and Corrections	86,262	95,736		
Transportation	209,880	74,877		30
Natural Resources and Recreation	423,140	43,374	543,400	
Lottery	2,783,798	3,811,862		
Total Business-Type Activities	31,936,134	17,682,518	14,103,243	281,741
Total Primary Government	124,676,391	25,019,637	61,323,706	2,820,690
COMPONENT UNITS				
Component Units	2,651,926	2,280,572	227,640	
Total Component Units	2,651,926	2,280,572	227,640	0

General Revenues

Taxes:

Sales and Use

Motor Vehicle and Manufactured Housing

Motor Fuels

Franchise

Oil and Natural Gas Production

Insurance Occupation

Cigarette and Tobacco

Other

Unrestricted Investment Earnings

Settlement of Claims

Gain on Sale of Capital Assets

Other General Revenues

Capital Contributions

Contributions to Permanent and Term Endowments

Transfers - Internal Activities (Note 12)

Total General Revenues, Contributions
and Transfers

Change in Net Position

Net Position, September 1, 2010

Restatements (Note 14)

Net Position, September 1, 2010, as Restated

Net Position, August 31, 2011

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas.

The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

Net (Expense) Revenue and Changes in Net Position			
Primary Government		Total	Component Units
Governmental Activities	Business-Type Activities		
\$ (899,169)	\$	\$ (899,169)	\$
(16,868,068)		(16,868,068)	
(324,377)		(324,377)	
(2,262,638)		(2,262,638)	
(10,616,166)		(10,616,166)	
(4,541,649)		(4,541,649)	
649,560		649,560	
(248,481)		(248,481)	
264,292		264,292	
(797,030)		(797,030)	
<u>(35,643,726)</u>	<u>0</u>	<u>(35,643,726)</u>	<u>0</u>
	44,733	44,733	
	(1,068,790)	(1,068,790)	
	89,226	89,226	
	9,474	9,474	
	(134,973)	(134,973)	
	163,634	163,634	
	1,028,064	1,028,064	
<u>0</u>	<u>131,368</u>	<u>131,368</u>	<u>0</u>
<u>(35,643,726)</u>	<u>131,368</u>	<u>(35,512,358)</u>	<u>0</u>
			(143,714)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(143,714)</u>
21,751,249		21,751,249	
3,001,387		3,001,387	
3,108,153		3,108,153	
3,998,073		3,998,073	
3,069,384		3,069,384	
1,379,621		1,379,621	
1,551,420		1,551,420	
1,802,300		1,802,300	
334,621	86,295	420,916	(2,920)
584,305	1,215	585,520	
99	1	100	163
1,533,427	222,640	1,756,067	1,704
108,119	3,045	111,164	
	126,971	126,971	
<u>(4,179,888)</u>	<u>4,179,888</u>		
<u>38,042,270</u>	<u>4,620,055</u>	<u>42,662,325</u>	<u>(1,053)</u>
<u>2,398,544</u>	<u>4,751,423</u>	<u>7,149,967</u>	<u>(144,767)</u>
94,905,088	37,371,790	132,276,878	924,563
(50,945)	11,015	(39,930)	108,514
<u>94,854,143</u>	<u>37,382,805</u>	<u>132,236,948</u>	<u>1,033,077</u>
<u>\$ 97,252,687</u>	<u>\$ 42,134,228</u>	<u>\$ 139,386,915</u>	<u>\$ 888,310</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2011 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 7,051,306	\$ 4,086,021	\$ 1,461,181	\$ 3,522,371	\$ 16,120,879
Short-Term Investments	69,896		104,841	126,274	301,011
Securities Lending Collateral			310,965		310,965
Receivables:					
Accounts	399,038	129,425	86,321	2,594	617,378
Taxes (Note 24)	2,852,586				2,852,586
Federal	2,950,405	344,564		2,209	3,297,178
Investment Trades	1,180		28,167	2,460	31,807
Other Intergovernmental	629,323	68,625			697,948
Interest and Dividends	4,492	10,120	71,509	12,749	98,870
Other	306,624			558	307,182
Due From Other Funds (Note 12)	94,524	254,875	54	74,726	424,179
Due From Component Units (Note 12)	1				1
Interfund Receivable (Note 12)	27,677				27,677
Inventories	179,577	113,244		572	293,393
Prepaid Items	263	153	6	6	428
Investments	534,410		25,617,937	759,940	26,912,287
Loans and Contracts	518,963	331,766	295	1,945,356	2,796,380
Other Assets		8,318		8,071	16,389
Restricted:					
Cash and Cash Equivalents	6,071			5,081	11,152
Loans and Contracts	507,300			749,704	1,257,004
Other Assets	3			90,263	90,266
Total Assets	<u>\$ 16,133,639</u>	<u>\$ 5,347,111</u>	<u>\$ 27,681,276</u>	<u>\$ 7,302,934</u>	<u>\$ 56,464,960</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 4,152,504	\$ 950,123	\$ 10,977	\$ 40,366	\$ 5,153,970
Investment Trades	1,406		200,848	2,929	205,183
Other Intergovernmental	1,184,278				1,184,278
Tax Refunds (Note 24)	662,322				662,322
Payroll	554,989	94,884	3,155	4,895	657,923
Federal	155				155
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,087,144	4,034	765	62,470	1,154,413
Due To Component Units (Note 12)	525				525
Interfund Payable (Note 12)	891			4,823	5,714
Deferred Revenues	941,373	3,515,879	107,527	2,291	4,567,070
Obligations/Reverse Repurchase Agreements	65,653				65,653
Obligations/Securities Lending			410,746		410,746
Other Liabilities	279,141	30,652		1,803	311,596
Total Liabilities	<u>8,949,073</u>	<u>4,595,572</u>	<u>734,018</u>	<u>119,577</u>	<u>14,398,240</u>
Fund Balances/(Deficits):					
Nonspendable (Note 13)	500,585	113,397	11,392,532	748,223	12,754,737
Restricted (Note 13)	1,393,302	1,375,426	15,554,726	5,676,099	23,999,553
Committed (Note 13)	4,184,546	779		757,447	4,942,772
Assigned (Note 13)	29,371			1,588	30,959
Unassigned (Note 13)	1,076,762	(738,063)			338,699
Total Fund Balances	<u>7,184,566</u>	<u>751,539</u>	<u>26,947,258</u>	<u>7,183,357</u>	<u>42,066,720</u>
Total Liabilities and Fund Balances	<u>\$ 16,133,639</u>	<u>\$ 5,347,111</u>	<u>\$ 27,681,276</u>	<u>\$ 7,302,934</u>	<u>\$ 56,464,960</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2011 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 42,066,720

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets less accumulated depreciation and amortization are included in the statement of net position. (Note 2)

Capital Assets - Non-Depreciable or Non-Amortizable	\$ 63,865,844	
Capital Assets - Depreciable or Amortizable, Net	<u>11,801,650</u>	
		75,667,494

Some of the state's resources are not currently available and are not reported in the funds.

Net Pension Assets (Note 9)	4,997	
Deferred charges for unamortized bond issuance cost	43,831	
Derivative Instruments (Note 7)	<u>26,252</u>	
		75,080

Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.

757,811

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)

Claims and Judgments	(147,973)	
Capital Lease Obligations	(14,177)	
Employees' Compensable Leave	(718,842)	
Notes and Loans Payable	(1,149,953)	
General Obligation Bonds Payable	(11,519,544)	
Revenue Bonds Payable	(5,455,607)	
Pollution Remediation Obligation	(263,806)	
Net Pension Obligation	<u>(1,904,209)</u>	
		(21,174,111) *

* current portion = \$1,232,175 and noncurrent portion = \$19,941,936

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position.

(368,291)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

227,984

Net Position of Governmental Activities \$ 97,252,687

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 34,351,663	\$ 2,313,017	\$	\$ 2,967,367	\$ 39,632,047
Federal	41,830,152	3,005,436		71,562	44,907,150
Licenses, Fees and Permits	2,603,118	1,330,484	3,795	724,163	4,661,560
Interest and Other Investment Income	225,580	62,762	3,148,046	172,367	3,608,755
Land Income	17,896	6,679	526,037	29	550,641
Settlement of Claims	591,469	663	500		592,632
Sales of Goods and Services	1,840,825	222,785	56,318	5,187	2,125,115
Other	3,052,398	4,855	9	29,908	3,087,170
Total Revenues	<u>84,513,101</u>	<u>6,946,681</u>	<u>3,734,705</u>	<u>3,970,583</u>	<u>99,165,070</u>
EXPENDITURES					
Current:					
General Government	3,732,701	12,392		235,449	3,980,542
Education	26,947,388		89,818	1,601,331	28,638,537
Employee Benefits	1,666			12,521	14,187
Teacher Retirement Benefits	1,854,504				1,854,504
Health and Human Services	44,866,389			2,887	44,869,276
Public Safety and Corrections	4,757,920	558,761		98,455	5,415,136
Transportation	21,473	3,597,665		27,493	3,646,631
Natural Resources and Recreation	1,438,492			79,418	1,517,910
Regulatory Services	334,926			72,542	407,468
Capital Outlay	220,391	3,048,249	136	468,260	3,737,036
Debt Service:					
Principal	2,993	34,629		554,330	591,952
Interest	22,362	333		734,329	757,024
Other Financing Fees	209	5,555		10,073	15,837
Total Expenditures	<u>84,201,414</u>	<u>7,257,584</u>	<u>89,954</u>	<u>3,897,088</u>	<u>95,446,040</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>311,687</u>	<u>(310,903)</u>	<u>3,644,751</u>	<u>73,495</u>	<u>3,719,030</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	3,873,493	195,016		2,069,934	6,138,443
Transfer Out (Note 12)	(5,994,010)	(433,843)	(1,092,809)	(2,823,169)	(10,343,831)
Bonds and Notes Issued	62,575			1,503,272	1,565,847
Bonds Issued for Refunding				546,565	546,565
Premiums on Bonds Issued	225			84,636	84,861
Payment to Escrow for Refunding				(580,307)	(580,307)
Sale of Capital Assets	6,056	3,363			9,419
Increase in Obligations Under Capital Leases	902	2,057			2,959
Insurance Recoveries	1,191	10,832			12,023
Total Other Financing Sources (Uses)	<u>(2,049,568)</u>	<u>(222,575)</u>	<u>(1,092,809)</u>	<u>800,931</u>	<u>(2,564,021)</u>
Net Change in Fund Balances	<u>(1,737,881)</u>	<u>(533,478)</u>	<u>2,551,942</u>	<u>874,426</u>	<u>1,155,009</u>
Fund Balances, September 1, 2010	8,409,552	1,285,017	24,395,316	6,679,443	40,769,328
Restatements (Note 14)	512,895			(370,512)	142,383
Fund Balances, September 1, 2010, as Restated	<u>8,922,447</u>	<u>1,285,017</u>	<u>24,395,316</u>	<u>6,308,931</u>	<u>40,911,711</u>
Fund Balances, August 31, 2011	<u>\$ 7,184,566</u>	<u>\$ 751,539</u>	<u>\$ 26,947,258</u>	<u>\$ 7,183,357</u>	<u>\$ 42,066,720</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

Net Change in Fund Balances

\$ 1,155,009

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 3,737,036	
Depreciation Expense (Note 2)	(944,409)	
Amortization Expense (Note 2)	(30,588)	
	<u>2,762,039</u>	2,762,039

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets. (9,320)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,735,608)

The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities. 91,385

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.

Bonds and Notes Issued	(2,112,412)	
Premiums on Bond Proceeds	(84,861)	
Increase in Obligations Under Capital Leases	(2,959)	
Repayment of Bond and Capital Lease Principal	<u>1,172,259</u>	
		(1,027,973)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 1,164,380

Transfers of capital assets are not reported in the governmental funds. Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities.

Capital Asset Transfers	(1,368)	
Increase in Revenues	120	
Increase in Expenses	(26,988)	
Net Change in Transfers	<u>26,868</u>	
		<u>(1,368)</u>

Change in Net Position of Governmental Activities

\$ 2,398,544

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,010,892	\$ 715	\$ 99,528	\$ 216,640	\$ 4,327,775	\$ 22,281
Short-Term Investments	247,723			614,560	862,283	369,969
Securities Lending Collateral	384,553			139,464	524,017	
Restricted:						
Cash and Cash Equivalents	816,526	918,165		1,206,675	2,941,366	
Short-Term Investments	43,753		204,628	52,141	300,522	
Loans and Contracts	12			76,225	76,237	
Receivables:						
Federal	851,098	35,768		9,847	896,713	18
Other Intergovernmental	52,568			2,823	55,391	
Accounts	1,269,473	272,205	16,068	24,810	1,582,556	129,358
Interest and Dividends	63,522	5,148		60,783	129,453	1,564
Gifts	184,903				184,903	
Investment Trades	320,687			193,797	514,484	2,625
Other	309,295			2,656	311,951	
Due From Other Funds (Note 12)	759,827	17,493		28,259	805,579	601
Due From Component Units (Note 12)	55				55	
Interfund Receivable (Note 12)	115,215			223	115,438	
Inventories	120,820		8,599	9,708	139,127	
Prepaid Items	111,733	1,749		257	113,739	
Loans and Contracts	105,122			184,489	289,611	
Other Current Assets	345,854			1,230	347,084	
Total Current Assets	<u>10,113,631</u>	<u>1,251,243</u>	<u>328,823</u>	<u>2,824,587</u>	<u>14,518,284</u>	<u>526,416</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	185,398			26,317	211,715	
Short-Term Investments	4,767				4,767	
Investments	24,496,471		979,559	2,987,147	28,463,177	
Receivables	6,204			153,170	159,374	
Loans and Contracts	101,442			3,089,584	3,191,026	
Other	1			4,862	4,863	
Loans and Contracts	35,694			3,787,152	3,822,846	
Investments	6,035,449			(988)	6,034,461	276,220
Interfund Receivable (Note 12)	529,210			2,840	532,050	
Gifts Receivable	236,881				236,881	
Other Receivables				651	651	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	3,914,539			2,298,194	6,212,733	
Depreciable or Amortizable, Net	16,571,171		496	405,442	16,977,109	
Assets Held in Trust	362			2,783	3,145	
Deferred Charges	2,275	7,412		47,605	57,292	
Other Noncurrent Assets	314,503			405	314,908	
Total Noncurrent Assets	<u>52,434,367</u>	<u>7,412</u>	<u>980,055</u>	<u>12,805,164</u>	<u>66,226,998</u>	<u>276,220</u>
Total Assets	<u>62,547,998</u>	<u>1,258,655</u>	<u>1,308,878</u>	<u>15,629,751</u>	<u>80,745,282</u>	<u>802,636</u>
DEFERRED OUTFLOWS						
Deferred Outflow of Resources (Note 7)	209,231			366,509	575,740	
Total Deferred Outflow of Resources	<u>209,231</u>	<u>0</u>	<u>0</u>	<u>366,509</u>	<u>575,740</u>	<u>0</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,499,385	95,694	23,695	22,558	1,641,332	526,100
Payroll	716,497		1,843	3,178	721,518	
Other Intergovernmental	18,354				18,354	
Federal	43,332				43,332	
Investment Trades	130,572			210,461	341,033	
Interest	5,268	13,683		44,957	63,908	
Annuities			12,687		12,687	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 24,311	\$	\$ 1,560	\$ 4,805	\$ 30,676	\$ 48,025
Interfund Payable (Note 12)	117,115				117,115	
Unearned Revenue	2,580,428	51,066		69,806	2,701,300	527
Obligations/Securities Lending	384,553			139,464	524,017	
Claims and Judgments (Note 5)	15,709				15,709	
Capital Lease Obligations (Note 5, 8)	2,765				2,765	
Employees' Compensable Leave (Note 5)	342,222		1,241	2,521	345,984	
Notes and Loans Payable (Note 5)	885,076			20,000	905,076	
General Obligation Bonds Payable (Note 5, 6)	8,680			109,934	118,614	
Revenue Bonds Payable (Note 5, 6)	1,811,961	174,918		254,993	2,241,872	
Pollution Remediation Obligation (Note 5)	20				20	
Liabilities Payable From Restricted Assets (Note 5)			273,202	238,589	511,791	
Funds Held for Others	142,277				142,277	
Hedging Derivative Liability (Note 7)	4,740				4,740	
Other Current Liabilities	281,981		1,452	2,532	285,965	
Total Current Liabilities	<u>9,015,246</u>	<u>335,361</u>	<u>315,680</u>	<u>1,123,798</u>	<u>10,790,085</u>	<u>574,652</u>
Noncurrent Liabilities:						
Interfund Payable (Note 12)	552,336				552,336	
Claims and Judgments (Note 5)	44,521				44,521	
Capital Lease Obligations (Note 5, 8)	17,719				17,719	
Employees' Compensable Leave (Note 5)	336,446		991	1,006	338,443	
Notes and Loans Payable (Note 5)	68,093			1,032,550	1,100,643	
General Obligation Bonds Payable (Note 5, 6)	29,977			2,807,060	2,837,037	
Revenue Bonds Payable (Note 5, 6)	10,093,873	1,736,216		4,694,901	16,524,990	
Liabilities Payable From Restricted Assets (Note 5)			874,222	2,175,520	3,049,742	
Assets Held for Others	820,764			2,783	823,547	
Net OPEB Obligation (Note 11)	2,243,461				2,243,461	
Hedging Derivative Liability (Note 7)	204,491			366,509	571,000	
Other Noncurrent Liabilities	226,166			67,104	293,270	
Total Noncurrent Liabilities	<u>14,637,847</u>	<u>1,736,216</u>	<u>875,213</u>	<u>11,147,433</u>	<u>28,396,709</u>	<u>0</u>
Total Liabilities	<u>23,653,093</u>	<u>2,071,577</u>	<u>1,190,893</u>	<u>12,271,231</u>	<u>39,186,794</u>	<u>574,652</u>
NET POSITION						
Invested in Capital Assets, Net of Related Debt	8,668,346		496	573,710	9,242,552	
Restricted for:						
Education	2,581,486				2,581,486	
Debt Retirement	50,836	116,162		216,780	383,778	
Capital Projects	394,517				394,517	
Veterans Land Board Housing Programs				691,159	691,159	
Unemployment Trust Funds		937,245			937,245	
Funds Held as Permanent Investments:						
Nonexpendable	12,954,190				12,954,190	
Expendable	6,391,309				6,391,309	
Other		35,642	5,000	1,841	42,483	227,984
Unrestricted	<u>8,063,452</u>	<u>(1,901,971)</u>	<u>112,489</u>	<u>2,241,539</u>	<u>8,515,509</u>	
Total Net Position	<u>\$ 39,104,136</u>	<u>\$ (812,922)</u>	<u>\$ 117,985</u>	<u>\$ 3,725,029</u>	<u>\$ 42,134,228</u>	<u>\$ 227,984</u>

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Lottery Collections	\$	\$	\$ 3,811,626	\$	\$ 3,811,626
Tuition Revenue	51,116				51,116
Tuition Revenue – Pledged	4,613,972				4,613,972
Discounts and Allowances	(1,129,755)				(1,129,755)
Hospital Revenue – Pledged	7,982,708				7,982,708
Discounts and Allowances	(4,170,616)				(4,170,616)
Professional Fees	4,291,099				4,291,099
Professional Fees – Pledged	5,076				5,076
Discounts and Allowances	(2,788,079)				(2,788,079)
Auxiliary Enterprises	3,357				3,357
Auxiliary Enterprises – Pledged	1,106,689			95,481	1,202,170
Discounts and Allowances	(61,405)				(61,405)
Unemployment Taxes		2,675,581			2,675,581
Other Sales of Goods and Services	20,829			80,650	101,479
Other Sales of Goods and Services – Pledged	757,915			97,468	855,383
Discounts and Allowances	(179)				(179)
Interest and Investment Income	1,832			311,046	312,878
Interest and Investment Income – Pledged	119			81,494	81,613
Federal Revenue	2,228,134	3,469,603		28,848	5,726,585
State Grant Revenue	35,150				35,150
Premium Revenue					
Other Operating Grant Revenue	742,218				742,218
Other Operating Grant Revenue – Pledged	634,098				634,098
Other Revenues	44,736	220,333	1,280	55,287	321,636
Other Revenues – Pledged	131,525				131,525
Total Operating Revenues	14,500,539	6,365,517	3,812,906	750,274	25,429,236
OPERATING EXPENSES					
Cost of Goods Sold	144,290			68,517	212,807
Salaries and Wages	10,166,577		17,582	43,977	10,228,136
Payroll Related Costs	2,142,993		4,504	10,912	2,158,409
Professional Fees and Services	870,320		4,642	83,467	958,429
Travel	264,836		302	572	265,710
Materials and Supplies	1,766,544		1,594	7,833	1,775,971
Communication and Utilities	665,409		711	1,995	668,115
Repairs and Maintenance	420,027		444	18,074	438,545
Rentals and Leases	228,159		4,306	2,255	234,720
Printing and Reproduction	57,577		13,629	197	71,403
Depreciation and Amortization	1,432,637		283	22,359	1,455,279
Unemployment Benefit Payments		6,014,553			6,014,553
Bad Debt Expense	12,895		317	953	14,165
Interest Expense	2,037		1	305,423	307,461
Scholarships	1,092,905				1,092,905
Lottery Fees and Other Costs			311,780		311,780
Lottery Prize Payments			2,387,244		2,387,244
Employee/Participant Benefit Payments				218,213	218,213
Claims and Judgments	22,236				22,236
Net Change in Pension/OPEB Obligations (Note 11)	605,319				605,319
Other Expenses	1,365,681		36,459	50,734	1,452,874
Total Operating Expenses	21,260,442	6,014,553	2,783,798	835,481	30,894,274
Operating Income (Loss)	(6,759,903)	350,964	1,029,108	(85,207)	(5,465,038)

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 967,657	\$	\$	\$ 267,335	\$ 1,234,992	\$
Gifts	608,998			48	609,046	
Gifts – Pledged	40,250				40,250	
Land Income	8,396			13	8,409	
Interest and Investment Income	4,120,453	13,817	596	170,982	4,305,848	12,753
Interest and Investment Income – Pledged	351,840				351,840	
Loan Premium and Fees on Securities Lending						6
Investing Activities Expense	(87,465)			(735)	(88,200)	
Interest Expense	(472,729)	(40,172)		(141,876)	(654,777)	
Borrower Rebates and Agent Fees	(1,020)			(118)	(1,138)	(1)
Loss on Sale of Capital Assets	(48,172)				(48,172)	
Settlement of Claims	1,215			1	1,216	496
Claims and Judgments	(2,364)			(10)	(2,374)	
Other Revenues	94,991				94,991	
Other Revenues – Pledged	20,078				20,078	
Other Expenses	(119,210)	(1,234)		(126,746)	(247,190)	
Total Nonoperating Revenues (Expenses)	5,482,918	(27,589)	596	168,894	5,624,819	13,254
Income (Loss) Before Capital Contributions, Endowments and Transfers	(1,276,985)	323,375	1,029,704	83,687	159,781	91,385
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	2,127				2,127	
Capital Contributions – Other	283,994			30	284,024	
Contributions to Permanent and Term Endowments	126,971				126,971	
Transfer In (Note 12)	5,524,885	82,959		71,972	5,679,816	
Transfer Out (Note 12)	(430,279)	(4,134)	(1,023,783)	(43,100)	(1,501,296)	
Total Capital Contributions, Endowments and Transfers	5,507,698	78,825	(1,023,783)	28,902	4,591,642	0
Change in Net Position	4,230,713	402,200	5,921	112,589	4,751,423	91,385
Net Position, September 1, 2010	34,873,550	(1,215,122)	112,064	3,601,298	37,371,790	136,599
Restatements (Note 14)	(127)			11,142	11,015	
Net Position, September 1, 2010, as Restated	34,873,423	(1,215,122)	112,064	3,612,440	37,382,805	136,599
Net Position, August 31, 2011	\$39,104,136	\$ (812,922)	\$ 117,985	\$3,725,029	\$42,134,228	\$ 227,984

The accompanying notes to the financial statements are an integral part of this statement.

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** Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 5,629,234	\$ 2,638,362	\$ 3,838,225	\$ 291,710	\$ 12,397,531
Receipts from Gifts				18	18
Proceeds from Tuition and Fees	3,677,257				3,677,257
Proceeds from Research Grants and Contracts	4,312,085	3,507,287			7,819,372
Proceeds from Loan Programs	322,966			698,493	1,021,459
Proceeds from Auxiliaries	1,039,276				1,039,276
Proceeds from Other Revenues	644,714	216,605		82,012	943,331
Payments to Suppliers for Goods and Services	(5,829,204)		(372,196)	(211,396)	(6,412,796)
Payments to Employees	(12,311,775)		(22,021)	(55,331)	(12,389,127)
Payments for Loans Provided	(307,297)			(495,876)	(803,173)
Payments for Unemployment Benefits		(6,071,228)			(6,071,228)
Payments for Lottery Prizes			(2,382,032)		(2,382,032)
Payments for Other Expenses	(898,334)			(162,412)	(1,060,746)
Net Cash Provided (Used) by Operating Activities	(3,721,078)	291,026	1,061,976	147,218	(2,220,858)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance		2,110,392		430,756	2,541,148
Proceeds from State Appropriations	4,131,093			3,837	4,134,930
Proceeds from Gifts	637,871			30	637,901
Proceeds from Endowments	411,576				411,576
Proceeds from Transfers from Other Funds	254,629	2,173,903		209,474	2,638,006
Proceeds from Loan Programs	20,370	725,678			746,048
Proceeds from Grant Receipts	698,540			258,983	957,523
Proceeds from Interfund Payables				49	49
Proceeds from Other Financing Activities	601,548		72,862	5	674,415
Payments of Principal on Debt Issuance	(37,415)	(2,261,298)		(887,370)	(3,186,083)
Payments of Interest	(32,438)	(46,828)		(314,363)	(393,629)
Payments of Other Costs on Debt Issuance	(65)	(10,392)		(1,618)	(12,075)
Payments for Transfers to Other Funds	(1,233,553)	(2,105,738)	(1,025,094)	(331,347)	(4,695,732)
Payments for Grant Disbursements				(137,313)	(137,313)
Payments for Interfund Receivables				(10,937)	(10,937)
Payments for Other Uses	(187,340)		(187,799)	(20,046)	(395,185)
Net Cash Provided (Used) by Noncapital Financing Activities	5,264,816	585,717	(1,140,031)	(799,860)	3,910,642
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	3,184			8	3,192
Proceeds from Debt Issuance	1,335,096				1,335,096
Proceeds from State Grants and Contracts	48,332				48,332
Proceeds from Federal Grants and Contracts				7,883	7,883
Proceeds from Gifts	915				915
Proceeds from Other Financing Activities	128,209			13	128,222
Proceeds from Interfund Loans	3,377				3,377
Proceeds from Capital Contributions	281,623			201	281,824
Proceeds from Interfund Payables				11	11
Payments for Additions to Capital Assets	(2,960,630)			(13,392)	(2,974,022)
Payments of Principal on Debt Issuance	(706,387)			(400)	(706,787)
Payments for Capital Leases	(945)		(71)	(68)	(1,084)
Payments of Interest on Debt Issuance	(451,800)			(76,122)	(527,922)
Payments of Other Costs on Debt Issuance	(117,392)			(883)	(118,275)
Payments for Interfund Loans	(1,670)				(1,670)
Net Cash Used by Capital and Related Financing Activities	(2,438,088)	0	(71)	(82,749)	(2,520,908)

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 15,597,290	\$	\$ 193,247	\$ 5,922,063	\$ 21,712,600	\$ 3,900
Proceeds from Interest and Investment Income	1,566,055	8,670		263,066	1,837,791	50
Proceeds from Principal Payments on Loans				639,284	639,284	
Payments for Nonprogram Loans Provided	(78)			(593,668)	(593,746)	
Payments to Acquire Investments	(16,061,427)		(72,862)	(5,722,332)	(21,856,621)	
Net Cash Provided by Investing Activities	1,101,840	8,670	120,385	508,413	1,739,308	3,950
Net Increase (Decrease) in Cash and Cash Equivalents	207,490	885,413	42,259	(226,978)	908,184	(20,245)
Cash and Cash Equivalents, September 1, 2010	4,805,326	33,467	57,269	1,665,411	6,561,473	42,526
Restatements				11,199	11,199	
Cash and Cash Equivalents, September 1, 2010, as Restated	4,805,326	33,467	57,269	1,676,610	6,572,672	42,526
Cash and Cash Equivalents, August 31, 2011	\$ 5,012,816	\$ 918,880	\$ 99,528	\$ 1,449,632	\$ 7,480,856	\$ 22,281
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (6,759,903)	\$ 350,964	\$ 1,029,108	\$ (85,207)	\$ (5,465,038)	\$ 78,131
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,432,637		283	22,359	1,455,279	
Bad Debt Expense	261,054		317	953	262,324	
Operating Income (Loss) and Cash Flow Categories Classification Differences	682,954			52,442	735,396	68
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(466,029)	(18,915)	25,320	10,793	(448,831)	(30,633)
(Increase) Decrease in Due From Other Funds	(3,976)			(14)	(3,990)	(283)
(Increase) Decrease in Inventories	(10,133)		970	(1,146)	(10,309)	
(Increase) Decrease in Notes Receivable	4,312				4,312	
(Increase) Decrease in Loans and Contracts	(411)			97,182	96,771	
(Increase) Decrease in Other Assets	(8,428)			(1,197)	(9,625)	
(Increase) Decrease in Prepaid Expenses	20,882		1,141	(5)	22,018	
Increase (Decrease) in Payables	349,018	(50,693)	4,837	(1,092)	302,070	(16,529)
Increase (Decrease) in Deposits	19,536				19,536	
Increase (Decrease) in Due To Other Funds	(324)			3,833	3,509	
Increase (Decrease) in Unearned Revenue	133,424	9,670		(607)	142,487	40
Increase (Decrease) in Compensated Absence Liability	6,252			26	6,278	
Increase (Decrease) in Benefits Payable	602,712			79,879	682,591	
Increase (Decrease) in Other Liabilities	15,345			(30,981)	(15,636)	(54,989)
Total Adjustments	3,038,825	(59,938)	32,868	232,425	3,244,180	(102,326)
Net Cash Provided (Used) by Operating Activities	\$ (3,721,078)	\$ 291,026	\$ 1,061,976	\$ 147,218	\$ (2,220,858)	\$ (24,195)
NONCASH TRANSACTIONS						
Net Change in Fair Value of Investments	\$ 1,983,935	\$	\$ 595	\$ 153,924	\$ 2,138,454	\$ 4,273
Donation of Capital Assets	\$ 182,925	\$	\$	\$	\$ 182,925	\$
Borrowing Under Capital Lease Purchase	\$ 972	\$	\$	\$	\$ 972	\$
Other	\$ 13,696	\$	\$	\$ (755)	\$ 12,941	\$

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2011 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,062,777	\$	\$ 466,912	\$ 1,354,545
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	22,760,168			
Investments:				
U.S. Government	24,735,906	6,387,159	20,453	359,780
Corporate Equity	25,702,819		149,913	129,365
Corporate Obligations	2,782,139	214,827	260,154	16
Repurchase Agreements		7,602,997		33,829
Foreign Securities	28,341,266			
Externally Managed Investments	27,954,220			
Other	18,592,766		1,972,132	61,893
Receivables:				
Interest and Dividends	325,888	6,966	1,521	1,391
Accounts	275,863		288	7,233
Other Intergovernmental				918
Investment Trades	1,022,801		7,333	
Other	235		4,341	
Due From Other Funds (Note 12)	92,842			738
Properties, at Cost, Net of Accumulated Depreciation or Amortization	40,202		881	
Other Assets	250		84,379	1,732,460
Total Assets	<u>154,690,142</u>	<u>14,211,949</u>	<u>2,968,321</u>	<u>3,682,168</u>
LIABILITIES				
Payables:				
Accounts	\$ 302,413	\$ 1,187	\$ 28,112	\$ 229
Investment Trades	255,700	244,000	8,452	
Payroll	3,808			
Other Intergovernmental				726,981
Interest			17	
Annuities	650,061			
Due To Other Funds (Note 12)	87,831		6	2,988
Unearned Revenue	21,590		434	
Employees' Compensable Leave	7,071			
Obligations/Securities Lending	22,779,224			
Funds Held for Others			84,379	2,951,961
Other Liabilities	1,534	616	10	9
Total Liabilities	<u>24,109,232</u>	<u>245,803</u>	<u>121,410</u>	<u>3,682,168</u>
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	130,580,910			
Individuals, Organizations and Other Governments			2,846,911	
Pool Participants		13,966,146		
Total Net Position	<u>\$ 130,580,910</u>	<u>\$ 13,966,146</u>	<u>\$ 2,846,911</u>	<u>\$ 0</u>

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 2,964,116	\$	\$
State Contributions	2,749,723		
Premium Contributions	480,297		
Federal Contributions	205,271		13,995
Other Contributions	1,035,328		125,435
Total Contributions	7,434,735	0	139,430
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	14,632,617		202,515
Interest and Investment Income	2,711,469	33,352	32,253
Total Investing Income	17,344,086	33,352	234,768
Less Investing Activities Expense	246,975	8,658	1,549
Net Income from Investing Activities	17,097,111	24,694	233,219
From Securities Lending Activities:			
Securities Lending Income	137,249		
Less Securities Lending Expense:			
Borrower Rebates	33,147		
Management Fees	20,854		
Net Income from Securities Lending	83,248	0	0
Total Net Investment Income	17,180,359	24,694	233,219
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	0	(693,061)	0
Other Additions:			
Settlement of Claims	7		5,538
Other Revenue	3,226		326,474
Transfer In (Note 12)	106,654		
Total Other Additions	109,887	0	332,012
Total Additions	24,724,981	(668,367)	704,661
DEDUCTIONS			
Benefits	10,622,021		103,511
Refunds of Contributions	414,547		
Transfer Out (Note 12)	79,666		120
Intergovernmental Payments			66,320
Administrative Expenses	54,813		6,621
Depreciation and Amortization Expense	2,246		39
Settlement of Claims			56,642
Interest Expense	40		6
Loss on Sale of Properties	12		
Loss on Impairment of Capital Assets	4,478		
Other Expenses	4,122		142,454
Total Deductions	11,181,945	0	375,713
INCREASE (DECREASE) IN NET POSITION	13,543,036	(668,367)	328,948
NET POSITION			
Net Position, September 1, 2010	117,037,874	14,634,513	2,517,996
Restatements			(33)
Net Position, September 1, 2010, as Restated	117,037,874	14,634,513	2,517,963
Net Position, August 31, 2011	<u>\$ 130,580,910</u>	<u>\$ 13,966,146</u>	<u>\$ 2,846,911</u>

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

State of Texas

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NOTE 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

The state implemented two GASB statements in fiscal 2011.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes accounting and financial reporting standards for governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It also clarifies existing governmental fund type definitions.

GASB Statement No. 59, *Financial Statements Omnibus*, amends and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions,

authorities, institutions of higher education and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of general government; education; employee benefits; teacher retirement benefits; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services.

The reporting entity for the state is in accordance with the criteria established by GASB. A listing and brief summary of the component units and their relationship to the state of Texas is discussed in Note 19. These financial statements present the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activi-

ties of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic resources measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.) that is otherwise supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation and amortization, to present the net cost of each program. Program revenues are directly associated with a function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide

for specific identification of the programs and amounts are reported as general revenues.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. Therefore, they are not incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a recon-

ciliation is presented. The reconciliation explains the adjustments required to restate the fund-based financial statements for the governmental activities column of the government-wide financial statements.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government; education; employee benefits; teacher retirement benefits; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria are met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges; or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The state's major enterprise funds are:

- The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. These institutions of higher education are presented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.
- The **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.
- The **Lottery Fund** receives fees from external users that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are presented for all discrete component units.

Additional information about blended and discretely presented component units is provided in Note 19. Detailed information for the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred

revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for

the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and all other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries, and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing par-

ties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal and taxes receivables. The major receivables for business-type activities are federal, patient and tuition receivables. Receivables represent amounts due to the state at Aug. 31, 2011, from private persons or organizations. Amounts expected to be collected in the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2011 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables consist primarily of health care assistance and temporary assistance for needy families program receivables in the general fund and public university fund land income and private-sponsored programs in the colleges and universities fund. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances

between funds are reported as due from or due to other funds. Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as “internal balances.”

Noncurrent interfund receivables in the general fund, as shown in Note 12, are reported as nonspendable fund balance. Noncurrent interfund receivables in other governmental funds are reported as committed, restricted or assigned fund balance.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The costs of these items are expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and government-wide financial statements. The capitalization threshold and the estimated

useful life of the assets vary depending upon the asset type. Note 2 includes a table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state’s depreciation/amortization policy and other detailed information.

The state uses the modified approach to report infrastructure assets. This approach reflects a reasonable value of the asset and the cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state’s system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components: (a) the amount due in one year (current) and (b) the amount due in more than one year (noncurrent).

General long-term liabilities consist of the non-current portion of claims and judgments, capital lease obligations, employees’ compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums, discounts and issuance costs are deferred and amortized

over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours, depending on years of service.

Overtime, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a

maximum of 480 hours. Unpaid overtime is included in the calculation of current and noncurrent liabilities for each employee because it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no termination or death benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Legislature passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 8 provides details for capital lease obligations.

Deferred Inflows and Deferred Outflows

Changes in fair values of hedging derivative assets and liabilities are reported as deferred inflows and deferred outflows. Note 7 presents additional information about derivative instruments.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are (a) externally imposed by creditors, grantors, contributors, laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Invested in capital assets, net of related debt, consists of capital assets, including restricted capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balances represent resources with constraints placed upon the use of the sources by either (a) externally imposed by creditors (such as debt covenants), grantors,

contributors, laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the state's highest level of decision-making authority (the Legislature). These amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Assigned fund balances represent amounts constrained by the intent of an agency head or governing board to use the resources for a specific purpose, and the amount is neither restricted nor committed. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the state's policy to use committed resources first, and then assigned resources and lastly unassigned resources.

Interfund Activity and Transactions – Government-wide Financial Statements

The terms and definitions for interfund activity and requirements for reporting transfers are as follows:

- ***Interfund Activity:*** As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

- **Interfund Transactions:** Interfund transactions with discretely presented component units are reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. For additional information, see Note 17.

NOTE 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net posi-

tion. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and useful lives of the state's various categories of capital assets are as follows:

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets		
(Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Non-Depreciable	Various	Not applicable
Internally Generated		
Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

The table on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2011. The adjustment column includes assets not previously reported, accounting errors and other changes. The reclassifications column presents completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases, depreciation and amortization. The deletions column presents assets removed during the current fiscal year.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/10	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/11
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 8,296,693	\$ 116,776	\$ 1,336	\$ 501,304	\$ (1,070)	\$ 8,915,039
Infrastructure	48,155,621	(438,386)	2,089,575	16,693		49,823,503
Construction in Progress	4,208,127	314,742	(2,727,321)	3,237,782		5,033,330
Other Capital Assets	26,366	(1)		34		26,399
Land Use Rights – Permanent	61,364	417		6,209	(417)	67,573
Total Non-Depreciable & Non-Amortizable Assets	60,748,171	(6,452)	(636,410)	3,762,022	(1,487)	63,865,844
Depreciable Assets						
Buildings and Building Improvements	5,509,786	225	98,642	12,403	(8,744)	5,612,312
Infrastructure	19,034,058	271,293	494,526	2,016	(6,117)	19,795,776
Facilities and Other Improvements	215,241		(1,417)	126	(627)	213,323
Furniture and Equipment	926,265	425	1,346	81,805	(41,824)	968,017
Vehicles, Boats and Aircraft	1,003,093	(184)	7,958	78,658	(33,782)	1,055,743
Other Capital Assets	138,615		3,643	5,720	(1,324)	146,654
Total Depreciable Assets at Historical Cost	26,827,058	271,759	604,698	180,728	(92,418)	27,791,825
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,122,135)	(2,530)	8,227	(175,267)	6,763	(3,284,942)
Infrastructure	(10,647,971)	(7,277)	2,480	(616,591)	5,011	(11,264,348)
Facilities and Other Improvements	(136,904)	(228)	1,269	(7,627)	242	(143,248)
Furniture and Equipment	(697,647)	(1,149)	305	(67,174)	40,521	(725,144)
Vehicles, Boats and Aircraft	(596,354)	(59)	198	(70,644)	29,355	(637,504)
Other Capital Assets	(59,875)			(7,106)	665	(66,316)
Total Accumulated Depreciation*	(15,260,886)	(11,243)	12,479	(944,409)	82,557	(16,121,502)
Depreciable Assets, Net	11,566,172	260,516	617,177	(763,681)	(9,861)	11,670,323
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	22,196			1,193	(1,421)	21,968
Computer Software	296,949	691	17,865	21,555	(2,108)	334,952
Other Intangible Capital Assets – Term	15,170			16,797		31,967
Total Intangible Assets at Historical Cost	334,315	691	17,865	39,545	(3,529)	388,887
Less Accumulated Amortization for:						
Land Use Rights – Term	(4,575)			(3,148)	1,421	(6,302)
Computer Software	(225,399)	(337)		(25,783)	2,045	(249,474)
Other Intangible Capital Assets – Term	(127)			(1,657)		(1,784)
Total Accumulated Amortization*	(230,101)	(337)	0	(30,588)	3,466	(257,560)
Amortizable Assets, Net	104,214	354	17,865	8,957	(63)	131,327
Governmental Activities Capital Assets, Net	\$ 72,418,557	\$ 254,418	\$ (1,368)	\$ 3,007,298	\$ (11,411)	\$ 75,667,494

* Depreciation and amortization expense was charged to governmental activities as follows:

General Government	\$ 52,232
Education	6,437
Employee Benefits	4
Health and Human Services	39,028
Public Safety and Corrections	176,823
Transportation	666,042
Natural Resources and Recreation	32,106
Regulatory Services	2,325
Total	\$ 974,997

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/10	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/11
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 1,503,215	\$ (1,929)	\$ 459	\$ 22,817	\$ (359)	\$ 1,524,203
Infrastructure	1,629,428	(93)		9		1,629,344
Construction in Progress	3,175,537	(33,176)	(2,746,338)	2,239,829	(508)	2,635,344
Other Capital Assets	384,334	(293)		13,902	(1,128)	396,815
Land Use Rights – Permanent	19,749			65		19,814
Other Intangible Capital Assets – Permanent				7,213		7,213
Total Non-Depreciable & Non-Amortizable Assets	<u>6,712,263</u>	<u>(35,491)</u>	<u>(2,745,879)</u>	<u>2,283,835</u>	<u>(1,995)</u>	<u>6,212,733</u>
Depreciable Assets						
Buildings and Building Improvements	19,439,842	19,433	2,400,919	588,463	(350,402)	22,098,255
Infrastructure	1,240,799	6,112	100,191	1,789	(2,575)	1,346,316
Facilities and Other Improvements	1,413,001	9,855	182,573	8,749	(167,568)	1,446,610
Furniture and Equipment	3,818,739	3,939	13,546	472,794	(169,140)	4,139,878
Vehicles, Boats and Aircraft	224,499	22	324	18,773	(11,510)	232,108
Other Capital Assets	1,379,000	1,417	17,553	70,576	(27,581)	1,440,965
Total Depreciable Assets at Historical Cost	<u>27,515,880</u>	<u>40,778</u>	<u>2,715,106</u>	<u>1,161,144</u>	<u>(728,776)</u>	<u>30,704,132</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(8,381,063)	(1,533)	(8,227)	(821,175)	53,177	(9,158,821)
Infrastructure	(512,906)	(153)	(2,479)	(43,951)	26	(559,463)
Facilities and Other Improvements	(578,292)	(87)	(1,270)	(44,206)	108	(623,747)
Furniture and Equipment	(2,512,279)	(126)	(138)	(340,291)	148,655	(2,704,179)
Vehicles, Boats and Aircraft	(159,176)	(19)	(45)	(18,094)	10,739	(166,595)
Other Capital Assets	(873,473)	(196)		(64,075)	21,848	(915,896)
Total Accumulated Depreciation**	<u>(13,017,189)</u>	<u>(2,114)</u>	<u>(12,159)</u>	<u>(1,331,792)</u>	<u>234,553</u>	<u>(14,128,701)</u>
Depreciable Assets, Net	<u>14,498,691</u>	<u>38,664</u>	<u>2,702,947</u>	<u>(170,648)</u>	<u>(494,223)</u>	<u>16,575,431</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	791,277	(127)	44,300	219,440	(17,108)	1,037,782
Other Intangible Capital Assets – Term				2,359		2,359
Total Intangible Assets at Historical Cost	<u>791,532</u>	<u>(127)</u>	<u>44,300</u>	<u>221,799</u>	<u>(17,108)</u>	<u>1,040,396</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(12)			(26)		(38)
Computer Software	(527,000)	43		(122,749)	11,085	(638,621)
Other Intangible Capital Assets – Term				(59)		(59)
Total Accumulated Amortization**	<u>(527,012)</u>	<u>43</u>	<u>0</u>	<u>(122,834)</u>	<u>11,085</u>	<u>(638,718)</u>
Amortizable Assets, Net	<u>264,520</u>	<u>(84)</u>	<u>44,300</u>	<u>98,965</u>	<u>(6,023)</u>	<u>401,678</u>
Business-Type Activities Capital Assets, Net	<u>\$ 21,475,474</u>	<u>\$ 3,089</u>	<u>\$ 1,368</u>	<u>\$ 2,212,152</u>	<u>\$(502,241)</u>	<u>\$ 23,189,842</u>

** Depreciation and amortization expense was charged to business-type activities as follows:

Education	\$ 1,432,641
Transportation	17,227
Lottery	283
Other Business-Type Activities	4,475
Total	<u>\$ 1,454,626</u>

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/10	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/11
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 4,206	\$ (501)	\$	\$	\$	\$ 3,705
Construction in Progress	3,768		(2,569)	14		1,213
Total Non-Depreciable & Non-Amortizable Assets	<u>7,974</u>	<u>(501)</u>	<u>(2,569)</u>	<u>14</u>	<u>0</u>	<u>4,918</u>
Depreciable Assets						
Buildings and Building Improvements	44,745	(2,601)		25	(10)	42,159
Infrastructure	15			2		17
Facilities and Other Improvements	449					449
Furniture and Equipment	36,744	4,425	158	2,103	(326)	43,104
Vehicles, Boats and Aircraft	13,774			1,517	(3,297)	11,994
Other Capital Assets		57		3		60
Total Depreciable Assets at Historical Cost	<u>95,727</u>	<u>1,881</u>	<u>158</u>	<u>3,650</u>	<u>(3,633)</u>	<u>97,783</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(11,177)			(903)		(12,080)
Infrastructure				(1)		(1)
Facilities and Other Improvements	(346)			(64)		(410)
Furniture and Equipment	(19,790)	(2,210)		(3,252)	305	(24,947)
Vehicles, Boats and Aircraft	(10,212)			(2,016)	2,692	(9,536)
Other Capital Assets		(3)		(3)		(6)
Total Accumulated Depreciation	<u>(41,525)</u>	<u>(2,213)</u>	<u>0</u>	<u>(6,239)</u>	<u>2,997</u>	<u>(46,980)</u>
Depreciable Assets, Net	<u>54,202</u>	<u>(332)</u>	<u>158</u>	<u>(2,589)</u>	<u>(636)</u>	<u>50,803</u>
Intangible Capital Assets – Amortizable						
Computer Software	12,284		2,411	4,107		18,802
Total Intangible Assets at Historical Cost	<u>12,284</u>	<u>0</u>	<u>2,411</u>	<u>4,107</u>	<u>0</u>	<u>18,802</u>
Less Accumulated Amortization for:						
Computer Software	(8,061)			(2,410)		(10,471)
Total Accumulated Amortization	<u>(8,061)</u>	<u>0</u>	<u>0</u>	<u>(2,410)</u>	<u>0</u>	<u>(10,471)</u>
Amortizable Assets, Net	<u>4,223</u>	<u>0</u>	<u>2,411</u>	<u>1,697</u>	<u>0</u>	<u>8,331</u>
Component Units Capital Assets, Net	<u>\$ 66,399</u>	<u>\$ (833)</u>	<u>\$ 0</u>	<u>\$ (878)</u>	<u>\$ (636)</u>	<u>\$ 64,052</u>

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all “exhaustible” assets. “Inexhaustible assets,” such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered “exhaustible” assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state’s highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The state's capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of art and historical treasures not required to be capitalized are those:

- held for public exhibition, education or research in furtherance of public service, rather than for financial gain;
- protected, kept unencumbered, cared for and preserved; and
- subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 80 thousand maps, sketches and plat maps.

NOTE 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Comptroller of Public Accounts Treasury Operations Division (Treasury) by the state Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; bankers' acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury

Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2011. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. At Aug. 31, 2011, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 85 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging to the Treasury securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2011 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Separate audited financial statements may be obtained from the Trust Company.

Deposits

At Aug. 31, 2011, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.4 billion, \$394.4 million and \$426.6 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the “Cash and Cash Equivalents,” “Securities Lending Collateral” and “Investments” accounts. At Aug. 31, 2011, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.3 billion, \$392.2 million and \$429 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. At Aug. 31, 2011, the bank balances exposed to custodial credit risk are as follows:

Bank Balances Exposed to Custodial Credit Risk

August 31, 2011 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 1,641	\$
Other Nonmajor Funds	324	
Total Governmental Activities	<u>1,965</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	345	68,193
Other Nonmajor Funds	350	
Total Business-Type Activities	<u>695</u>	<u>68,193</u>
Total Governmental and Business-Type Activities	<u>\$ 2,660</u>	<u>\$68,193</u>
FIDUCIARY	<u>\$153,798</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 217</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. At Aug. 31, 2011, the bank balances exposed to foreign currency risk are as follows:

Bank Balances Exposed to Foreign Currency Risk

August 31, 2011 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
Australian Dollar	\$ 325	\$ 4,355	\$
Botswana Pula		10	
Brazilian Real	110	3,779	
Canadian Dollar	(87)	1,164	
Chilean Peso		140	
Colombian Peso		97	
Costa Rica Colones			15
Croatian Kuna		101	
Czech Koruna		73	
Danish Krone		298	
Egyptian Pound		126	
Euro	27	27,249	
Ghanaian Cedi		10	
Hong Kong Dollar		30,118	
Hungarian Forint		62	
Indian Rupee		6,065	
Indonesian Rupiah	7	1,753	
Japanese Yen		35,325	
Jordanian Dinar		161	
Kenyan Shilling		150	
Lithuanian Litas		45	
Malaysian Ringgit	50	942	
Mauritius Rupee		71	
Mexican Peso		129	88
Moroccan Dirham		129	
New Israeli Shekel		74	
New Taiwan Dollar	672	6,776	
New Turkish Lira	12	275	
New Zealand Dollar		47	
Nigerian Naira		95	
Norwegian Krone		1,252	
Pakistani Rupee		88	
Peruvian Nuevo Sol		55	
Philippine Peso	4	100	
Polish Zloty		573	
Pound Sterling	2	16,464	
Qatar Riyal	279	74	
Singapore Dollar		722	
South African Rand	521	4,805	
South Korean Won		1,318	
Swedish Krona		2,486	
Swiss Franc		3,179	
Thai Baht		1,171	
Total	\$ 1,922	\$ 151,906	\$ 103

Investments

The fair value of the investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings, on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians. Fair values can also be determined based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Money market investments are reported at amortized cost, which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less may also be reported at amortized cost, provided the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The investments at Aug. 31, 2011, are presented in the table below.

Investment Fair Value			
August 31, 2011 (Amounts in Thousands)			
	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	\$ 13,560,901	\$ 20,499,332	\$ 303,611
U.S. Treasury Strips	280,039	74,171	
U.S. Treasury TIPS	870,900	5,627,764	
U.S. Government Agency	7,469,593	7,219,954	569,753
Corporate Obligations	3,747,034	1,874,156	71,935
Corporate Asset and Mortgage Backed	1,795,670	2,386,453	266,040
Corporate Equity	11,386,634	25,842,225	
International Obligations	1,653,413	35,655	351
International Equity	2,824,878	28,299,750	
International Other Commingled Funds	410,967	2,859,572	
Repurchase Agreements	1,298,373	8,874,323	21,605
Fixed Income and Bond Mutual Fund	4,866,061	1,609,381	31,642
Other Mutual Funds	248,506	257,580	13
Other Commingled Funds	5,649,139	14,297,091	47,329
Commercial Paper	1,262,357	438,474	18,148
Invested Collateral	695,519	22,760,168	
Securities Lending Collateral Investment Pool	139,463		
Real Estate	807,795	430,267	
Derivatives	100,436	(93,267)	
Externally Managed Investments	24,055,322	28,349,973	
Other Investments	3,073,144	25,032	261,453
Total Investments	\$ 86,196,144	\$ 171,668,054	\$ 1,591,880

TRS, PSF and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about the securities lending activity is disclosed in the “Securities Lending” section of this note. At Aug. 31, 2011, the investment type balances for the invested securities lending cash collateral are as follows:

Invested Securities Lending Collateral Fair Value		
August 31, 2011 (Amounts in Thousands)		
	Governmental and Business-Type Activities	Fiduciary
Corporate Obligations	\$ 6,217	\$
Corporate Asset and Mortgage Backed	10,002	
International Obligations	68,303	
Repurchase Agreements	437,403	
Other Commingled Funds		22,760,168
Commercial Paper	134,214	
Other Investments	39,380	
Total Investments	\$ 695,519	\$ 22,760,168

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy

for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2011, the investments exposed to custodial credit risk are as follows:

Investments Exposed to Custodial Credit Risk		
August 31, 2011 (Amounts in Thousands)		
	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Asset and Mortgage Backed Repurchase Agreements	\$ 10,002 300,964	\$ 0
Total Governmental Activities	<u>310,966</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Government Agency	11,765	
Corporate Equity	1,844	9,624
Corporate Asset and Mortgage Backed		1,781
Fixed Income and Bond Mutual Fund	3,673	
Other Commingled Funds	14,902	
Miscellaneous	7,009	
Other Proprietary Funds		
U.S. Government Agency	15,040	
Repurchase Agreements		114,999
Fixed Income and Bond Mutual Fund		299,597
Total Business-Type Activities	<u>54,233</u>	<u>426,001</u>
Total Governmental and Business-Type Activities	<u>\$365,199</u>	<u>\$426,001</u>
FIDUCIARY		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	\$ 3,254	\$
Total Fiduciary	<u>\$ 3,254</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT have exposure to investment foreign currency risk. TRS manages the risk of holding investments in foreign currencies through asset allocation limits on various international investments. PSF and ERS do not have an

investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

At Aug. 31, 2011, the investments exposed to foreign currency risk are presented on the following page.

Investments Exposed to Foreign Currency Risk

August 31, 2011 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary			
	International		Other		International		Other	
	International Obligations	International Equity	Commingled Funds*	Other Investments	International Obligations	International Equity	Commingled Funds	Other Investments
Argentine Peso	\$	\$	\$	\$	\$	\$	\$	\$
Australian Dollar	122,981	79,798	5,209	248,608	993	928,785		2,395
Bermudan Dollar					6			
Botswana Pula						4,854		
Brazilian Real	285,507	183,771	20,629	148,497	68	1,056,913	57	
Canadian Dollar	52,984	88,257	2,197	366,150	1,966	1,542,615		11,457
Cayman Island Dollar					2			
Chilean Peso	251	5,013	473	16,521		84,429		
Chinese Yuan	210		5,878	252	14			
Colombian Peso	210			8,719	1	26,175		
Croatian Kuna						5,493		
Czech Koruna		3,261	640	3,524	8	38,760		
Danish Krone		5,786	130	27,792	30	119,180		
Egyptian Pound		2,249	363	2,878		52,475		
Euro	375,365	190,985	48,915	1,155,638	7,947	4,071,186	3,233	2,913,447
Ghanaian Cedi						3,942		
Hong Kong Dollar	1,875	253,484	3,440	249,621		2,032,467		7,868
Hungarian Forint	17,852	2,556	1	3,810	11	55,655		
Indian Rupee		47,403	3,238	87	7	444,341		
Indonesian Rupiah	25,141	24,754	955	27,327	15	402,920		
Jamaican Dollar					3			
Japanese Yen	65,475	132,757	9,865	589,370	813	2,951,181	2,815	15,081
Jersey Pound					2			
Jordanian Dinar						6,821		
Kazakhstani Tenge					1			
Kenyan Shilling						4,786		
Lithuanian Litas					9			
Macanese Pataca					2			
Malaysian Ringgit	34,664	36,179	1,169	31,031	74	208,650		
Mauritius Rupee						6,128		
Mexican Peso	55,946	31,365	3,252	45,455	136	395,892	118	
Moroccan Dirham		1,082	45	1,618		15,630		
New Israeli Shekel	6,069	144	11	12,659		53,786		
New Taiwan Dollar		63,502	6,651	106,173		738,759		
New Turkish Lira		26,267	971	12,422	12	223,091		
New Zealand Dollar	66,375		39	3,751		12,979		
Nigerian Naira					5	6,353		
Norwegian Krone	32,141	10,039	843	26,129	10	228,952		
Pakistani Rupee		1,084				15,936		
Peruvian Nuevo Sol	147	61	439		6	4,821		
Philippine Peso		7,180	485	6,356		57,202		
Polish Zloty	42,611	17,787	43	15,978	46	88,936		
Pound Sterling	151,475	253,328	19,346	621,252	396	3,476,621	986	201,911
Qatar Riyal						18,594		
Romanian Leu						3,034		
Russian Ruble		3,184	865	53,608	19			
Singapore Dollar	22,034	32,958	1,795	49,074		222,157		7,557
South African Rand	32,282	61,612	4,192	77,416	47	745,785		
South Korean Won	33,441	162,553	6,270	140,300	63	1,324,929		
Swedish Krona		33,724	788	81,489	3,086	339,132	179	
Swiss Franc		44,337	6,355	239,818	31	1,383,904	419	
Thai Baht		34,233	2,073	19,273		271,601		
Trinidad and Tobago Dollar					1			
Ukrainian Hryvnia					9			
United Arab Emirates Dirham		2,588			6	11,135		
Uruguayan Peso	126							
Other Currency**					80			
Total	<u>\$ 1,425,162</u>	<u>\$ 1,843,281</u>	<u>\$ 158,190</u>	<u>\$ 4,392,596</u>	<u>\$ 15,931</u>	<u>\$ 23,686,985</u>	<u>\$ 7,807</u>	<u>\$ 3,159,716</u>

* Includes investment receivables and payables related to spot currency transactions and swaps.

** Includes multi-national securities and does not represent a specific currency.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy establishes tracking error limits intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality resulting in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a

long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policy has no requirements or limitations for investment ratings.

At Aug. 31, 2011, the credit quality distribution for securities with credit risk exposure is as follows:

Investments Exposed to Credit Risk

August 31, 2011 (Amounts in Thousands)

	Governmental and Business-Type Activities							
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments
AAA	\$ 1,813,117	\$ 266,445	\$ 1,053,693	\$ 382,284	\$ 702,889	\$	\$	\$ 71,549
AA	7,767,630	284,904	49,561	88,439	841,712			130,693
A	3,778	1,033,369	103,990	297,406	114,999			53,826
BBB		801,016	45,936	76,624				16,187
BB		118,756	7,623	26,102				3,213
B		56,586	30,797	2,420				
CCC		3,798	29,169					
CC			3,651					
C				1,001				
D			1,030					
AAAf						2,293,111		
AAAf						858,351		
Aaf						18,916		
Af						780		
BBBf						281		
BBf						51		
Bf						536		
A-1							1,140,987	
Not Rated	150,651	179,756	429,175	789,181	610,457	1,244,967	140,321	321,987
Total	<u>\$9,735,176</u>	<u>\$2,744,630</u>	<u>\$1,754,625</u>	<u>\$1,663,457</u>	<u>\$2,270,057</u>	<u>\$4,416,993</u>	<u>\$1,281,308</u>	<u>\$597,455</u>

Continued on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2011 (Amounts in Thousands)

	Fiduciary								
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 6,071,689	\$ 318,083	\$ 174,465	\$ 4,845	\$ 8,013,890	\$	\$	\$ 43,739	\$ 14,626,711
AA	1,328,763	375,635	62,311	890	149,706			12,705	1,930,010
A	23	547,990	51,726	10,103				44,618	654,460
BBB		399,502	38,399	6,823				5	444,729
BB		117,658	23,727	982					142,367
B		132,667	101,353	4,104					238,124
CCC		3,951	323,949						327,900
CC		1,317	106,903	1,671					109,891
D			75,975						75,975
AAAf						155			155
Af						11,187			11,187
A-1							419,522		419,522
Not Rated	5,942	96,707	306,264	24,706	961	239,156	12,213,782	305,698	13,193,216
Total	<u>\$ 7,406,417</u>	<u>\$ 1,993,510</u>	<u>\$ 1,265,072</u>	<u>\$ 54,124</u>	<u>\$ 8,164,557</u>	<u>\$ 250,498</u>	<u>\$ 12,633,304</u>	<u>\$ 406,765</u>	<u>\$ 32,174,247</u>

	Component Units								
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 698,945	\$ 68,674	\$ 259,723	\$	\$	\$	\$	\$ 34,567	\$ 1,061,909
AA	82,652				14,656				97,308
A		2,616		351					2,967
BBB								4,761	4,761
BB								2,944	2,944
AAAf						13			13
AAAm						23,580			23,580
A-1							18,148		18,148
Not Rated	5,237	645	6,316		6,949	8,063		6,025	33,235
Total	<u>\$ 786,834</u>	<u>\$ 71,935</u>	<u>\$ 266,039</u>	<u>\$ 351</u>	<u>\$ 21,605</u>	<u>\$ 31,656</u>	<u>\$ 18,148</u>	<u>\$ 48,297</u>	<u>\$ 1,244,865</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. At Aug. 31, 2011, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Barclay Aggregate Bond Index's (formerly Lehman Bros. Aggregate Index) duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. At Aug. 31, 2011, the Barclay Aggregate Index duration was 5.05 years and the Barclay's TIP Index was 5.5 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days, and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio is 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio is 60 days. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk:

At Aug. 31, 2011, PSF's investments by investment type, fair value and the effective weighted duration rate are as follows:

Investments Exposed to Interest Rate Risk

August 31, 2011

PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 49,764	1.35
Commercial Mortgage Backed Securities	322,569	4.73
Corporate Obligations	1,086,276	5.67
Yankee – Corporate Obligations	54,709	9.03
Non Agency Mortgage Backed Securities	57,443	4.36
Private Placements - Corporate	159,135	3.76
Private Placements - Government	29,254	4.96
U.S. Government Agency Mortgage Backed Securities	1,831,796	2.91
U.S. Government Agency Obligations	611,322	3.03
U.S. Taxable Municipal Bonds	49,766	12.51
U.S. Treasury Securities	851,918	6.33
U.S. Treasury TIPS	208,134	5.89
Total Fixed Income	<u>\$ 5,312,086</u>	<u>4.61</u>
U.S. Treasury Securities	\$ 27,078	8.56
U.S. Treasury TIPS	662,766	5.73
Total Real Return	<u>\$ 689,844</u>	<u>5.85</u>

The following provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2011 (Amounts in Thousands)			
PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	\$ 10,002	\$	\$ 10,002
Repurchase Agreements	300,963	300,963	
Total	\$310,965	\$300,963	\$ 10,002

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate at Aug. 31, 2011. The effective weighted duration calculation for TRS excludes the high yield limited partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk		
August 31, 2011		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 19,253,594	11.49
U.S. Government Agency Obligations	12,532	8.99
Asset and Mortgage Backed Obligations	979,350	4.32
Corporate Obligations	169,087	5.55
International Government Obligations	12,250	7.65
International Corporate Obligations	15,435	6.32
Total Fixed Income	\$ 20,442,248	11.09

At Aug. 31, 2011, ERS' investments by investment type, fair value and the modified duration rate are as follows:

Investments Exposed to Interest Rate Risk				
August 31, 2011				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	\$ 4,104,872	\$ 146,227	5.70	5.70
U.S. Government Agency Obligations	1,131,169	40,296	3.19	3.19
Corporate Obligations	1,808,791	56,417	5.70	5.79
Corporate Asset and Mortgage Backed Securities	55,667	1,983	2.92	2.92
Cash and Cash Equivalents	2,508,505	437,002	0.01	0.01
Miscellaneous	79,994	2,850	12.73	12.73
Overall Interest Rate Risk Debt Securities	\$ 9,688,998	\$ 684,775	3.98	1.95

At Aug. 31, 2011, UT's investments by investment type, fair value and the modified duration rate are as follows:

Investments Exposed to Interest Rate Risk		
August 31, 2011		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 447,531	9.95
U.S. Treasury Strips	710	2.26
U.S. Treasury Bills	10,966	0.50
U.S. Agency Asset Backed	8,083	4.39
Total U.S. Government Guaranteed	<u>467,290</u>	<u>9.62</u>
U.S. Government Non-Guaranteed:		
U.S. Agency	32,195	1.72
U.S. Agency Asset Backed	272,721	3.17
Total U.S. Government Non-Guaranteed	<u>304,916</u>	<u>3.02</u>
Total U.S. Government	<u>772,206</u>	<u>7.01</u>
Corporate Obligations:		
Domestic	500,715	6.25
Foreign	353,195	5.27
Total Corporate Obligations	<u>853,910</u>	<u>5.84</u>
Foreign Government and Provincial Obligations	1,164,132	6.73
Other Debt Securities	43,584	12.36
Total Debt Securities	<u>2,833,832</u>	<u>6.63</u>
Other Investment Funds – Debt	139,491	5.82
Fixed Income Money Market Funds	2,271,337	0.05
Total Investments in Securities	<u>\$ 5,244,660</u>	<u>3.76</u>

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce

or eliminate the stream of income that would have been received. At Aug. 31, 2011, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$3.8 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair

value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

At Aug. 31, 2011, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$65.7 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$65.8 million. During fiscal 2011, the credit exposure was \$188 thousand.

Securities Lending

TRS, PSF, UT, the Veterans Land Board (VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, PSF and UT established their own separately managed securities lending programs. VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. TRS, UT and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus

accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The securities custodians are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, UT, VLB and TPHETB if the borrowers fail to return the securities.

TRS, VLB and TPHETB loans are terminable at will. For PSF, maturities are defined by the lending agreement and the loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity at Aug. 31, 2011 is summarized below.

Securities Lending Activity Summary

August 31, 2011 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	\$ 22,402,848	\$ 289,961	\$ 22,748,924	\$ 22,760,168	\$ 11,244
PSF	568,701	180,737	410,746	310,965	(99,781)
UT**	376,522		384,553	384,553	
VLB**	66,670		68,114	68,114	
TPHETB**	70,001	238	71,350	71,350	
Total	<u>\$ 23,484,742</u>	<u>\$ 470,936</u>	<u>\$ 23,683,687</u>	<u>\$ 23,595,150</u>	<u>\$ (88,537)</u>

* Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT, VLB and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2011.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of certain state agencies, public employee retirement systems and institutes of higher education investment strategies and are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivatives instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. At Aug. 31, 2011, TRS, PSF, UT, A&M, VLB and the Texas Department of Transportation (TxDOT) held investment derivatives (forwards, futures, options and swaps).

Forward foreign currency exchange contracts are used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase

or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. At Aug. 31, 2011, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT, VLB and TxDOT invested in pay-variable, receive-variable and pay-fixed, receive variable interest

rate swap agreements that are reported as investment derivatives because they are ineffective hedges. In late calendar year 2009, the slope of the 10 year London Interbank Offered Rate (LIBOR) swap yield curve had steepened, which allowed TxDOT to negotiate a fixed monthly cash flow annuity benefit on its three pay-variable, receive-variable constant maturity swaps. The suspension period began on Dec. 3, 2009. During the three year suspension period, the exchange of payments will cease and TxDOT will receive a fixed monthly annuity as consideration for the suspension.

Foreign Currency Risk: TRS, UT and A&M have exposure to investment foreign currency risk in forwards, futures, options and swaps derivative investments. At Aug. 31, 2011, derivative investments exposed to foreign currency risk are as follows:

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2011 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary
	Swaps	Options	Futures	Forwards	Swaps
Australian Dollar	\$ (508)	\$ 48,790	\$ 165	\$ 609	\$(185)
Brazilian Real	137			461	
Canadian Dollar	104		(138)	402	(102)
Chinese Yuan				602	
Czech Koruna				8	
Danish Krone				118	
Euro	(80)	7,516	295	(2,331)	(150)
Hong Kong Dollar				(4)	104
Hungarian Forint				(8)	
Indian Rupee				580	
Indonesian Rupiah				664	
Japanese Yen	86	21,528		(18,310)	33
Malaysian Ringgit				41	23
Mexican Peso	2,553			543	
New Taiwan Dollar				(245)	
New Turkish Lira				639	
New Zealand Dollar				732	
Norwegian Krone				(757)	
Philippine Peso				80	
Polish Zloty				(52)	
Pound Sterling	(583)		(596)	116	178
Singapore Dollar				102	
South African Rand				486	
South Korean Won		35,331		1,554	(381)
Swedish Krona				103	
Swiss Franc				3,090	25
Thai Baht				51	
Total	<u>\$ 1,709</u>	<u>\$ 113,165</u>	<u>\$ (274)</u>	<u>\$ (10,726)</u>	<u>\$(455)</u>

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collateral posted, to an amount not exceeding \$500 million for any individual counterparty. In addition, the net market value of all over-the-counter derivative positions, without consideration of collateral, may not exceed 5 percent of the total market value of the total investments in the TRS pension fund. TRS' investment policy clarifies that termination of the transaction is allowed.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

TxDOT's basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation. Collateral will be held by TxDOT and/or its designated custodian.

The aggregate fair value of investment derivative instruments in asset positions at Aug. 31, 2011, is \$380.2 million. The investment derivative instruments were executed with

counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would be recognized at Aug. 31, 2011, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$192.8 million of collateral held and by \$336.4 million in liabilities included in netting arrangements with those counterparties, resulting in a zero net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT, VLB and TxDOT are exposed to interest rate risk on swap transactions. TxDOT's interest rate risk on its constant maturity swap cash flows was eliminated during the suspension period by establishing the fixed annuity for that period. TxDOT also mitigates interest rate risk by maintaining the unilateral option to terminate any or all of the swaps at any time should interest rates cause sustained negative cash flows or fair values that warrant termination of the swaps.

Investment in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 134.4 percent of Securities Industry and Financial Markets Association (SIFMA) and receipt of 69.42 to 102.5 percent of one month to 10 year LIBOR. Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates and receipt of 2 to 11.36 percent. Investments in pay-fixed, received-variable interest rate swaps ranged from receipt of various foreign currency rates and payment of 2.5 to 4.75 percent. At Aug. 31, 2011, the investment maturities for the state's swap contracts exposed to interest rate risk are as follows:

Derivative Investments Exposed to Interest Rate Risk

August 31, 2011 (Amounts in Thousands)

Investment Type	Investment Maturities (in years)					
	Fair Value	Less Than 1	1-5	6-10	11-15	More than 15
Interest Rate Swaps	\$ (29,184)	\$ (63,950)	\$ 2,311	\$ (1,174)	\$ (92)	\$33,721

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. At Aug. 31, 2011, the fair value of various investment funds was \$52.4 billion.

NOTE 4

Short-Term Debt

On Aug. 24, 2010 (with an issue date of Aug. 31, 2010), \$7.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2010, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2011. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2010 notes were repaid during fiscal 2011, bore interest at 2 percent and were priced to yield 0.34 percent.

On Aug. 23, 2011, the Comptroller's office sold approximately \$9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2011, with an issue date of Sept. 1, 2011, and a maturity date of Aug. 31, 2012. The notes bear interest at 2.5 percent and

were priced to yield 0.273 percent. They are not subject to redemption prior to maturity. On Aug. 23, 2011, good faith funds in the amount of \$98 million were received.

During fiscal 2011, the Texas Department of Transportation retired \$65 million in commercial paper. The commercial paper proceeds were used to cover temporary funding shortfalls for capital expenditures.

Short-term debt activity for the year ended Aug. 31, 2011, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Balance 9/1/10	Issued	Redeemed	Balance 8/31/11
Tax and Revenue Anticipation Notes	\$ 7,800,000	\$	\$ 7,800,000	\$
Commercial Paper	65,000		65,000	
	<u>\$ 7,865,000</u>	<u>\$ 0</u>	<u>\$ 7,865,000</u>	<u>\$ 0</u>

NOTE 5

Long-Term Liabilities

Long-term liabilities for fiscal 2011 are presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Balance 9/1/10	Additions	Reductions	Balance 8/31/11	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	\$ 156,490	\$ 52,308	\$ 60,825	\$ 147,973	\$ 52,727	\$ 95,246
Capital Lease Obligations	14,501	2,959	3,283	14,177	4,863	9,314
Employees' Compensable Leave	758,191	785,004	824,353	718,842	467,180	251,662
Notes and Loans Payable	760,600	822,622	433,269	1,149,953	136,639	1,013,314
General Obligation Bonds Payable	10,085,579	2,030,712	596,747	11,519,544	352,500	11,167,044
Revenue Bonds Payable	5,620,060	4,018	168,471	5,455,607	176,724	5,278,883
Pollution Remediation Obligation	327,090	59,110	122,394	263,806	41,542	222,264
Governmental Activities Long-Term Liabilities	<u>\$ 17,722,511</u>	<u>\$ 3,756,733</u>	<u>\$ 2,209,342</u>	<u>\$ 19,269,902</u>	<u>\$ 1,232,175</u>	<u>\$ 18,037,727</u>
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	\$ 67,534	\$ 9,744	\$ 17,048	\$ 60,230	\$ 15,709	\$ 44,521
Capital Lease Obligations	14,342	9,287	3,145	20,484	2,765	17,719
Employees' Compensable Leave	678,417	207,903	201,893	684,427	345,984	338,443
Notes and Loans Payable	3,102,561	1,183,071	2,279,913	2,005,719	905,076	1,100,643
General Obligation Bonds Payable	2,943,752	217,252	205,353	2,955,651	118,614	2,837,037
Revenue Bonds Payable	17,042,975	3,123,908	1,400,021	18,766,862	2,241,872	16,524,990
Pollution Remediation Obligation	22	20	22	20	20	
Liabilities Payable From Restricted Assets	3,559,271	253,110	250,848	3,561,533	511,791	3,049,742
Business-Type Activities Long-Term Liabilities	<u>\$ 27,408,874</u>	<u>\$ 5,004,295</u>	<u>\$ 4,358,243</u>	<u>\$ 28,054,926</u>	<u>\$ 4,141,831</u>	<u>\$ 23,913,095</u>
COMPONENT UNITS						
Capital Lease Obligations	\$ 192	\$	\$ 49	\$ 143	\$ 48	\$ 95
Employees' Compensable Leave	5,424	3,202	2,941	5,685	3,517	2,168
Notes and Loans Payable	100,186	1,299	28,279	73,206	11,468	61,738
Revenue Bonds Payable	361,769	55,000	80,260	336,509	42,840	293,669
Liabilities Payable From Restricted Assets	57,830		7,750	50,080		50,080
Component Units Long-Term Liabilities	<u>\$ 525,401</u>	<u>\$ 59,501</u>	<u>\$ 119,279</u>	<u>\$ 465,623</u>	<u>\$ 57,873</u>	<u>\$ 407,750</u>

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2012	\$ 136,639	\$ 4,469	\$ 141,108
2013	170,418	3,908	174,326
2014	192,962	3,372	196,334
2015	200,035	2,847	202,882
2016	194,661	2,355	197,016
2017 - 2021	833,378	6,091	839,469
2022 - 2026	93,463	346	93,809
Total Requirements	1,821,556	23,388	1,844,944
Unamortized Accretion	(671,603)		(671,603)
Total Requirements	<u>\$ 1,149,953</u>	<u>\$ 23,388</u>	<u>\$ 1,173,341</u>

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2012	\$ 905,076	\$ 34,192	\$ 939,268
2013	4,283	35,302	39,585
2014	3,182	36,510	39,692
2015	2,758	37,864	40,622
2016	18,297	44,535	62,832
2017 - 2021	35,196	254,562	289,758
2022 - 2026	14,355	325,288	339,643
2027 - 2031	129,861	327,328	457,189
2032 - 2036	276,208	277,073	553,281
2037 - 2041	605,692	170,900	776,592
2042 - 2046	217,942	12,008	229,950
Total Requirements	2,212,850	1,555,562	3,768,412
Unamortized Accretion	(207,131)		(207,131)
Total Requirements	<u>\$ 2,005,719</u>	<u>\$ 1,555,562</u>	<u>\$ 3,561,281</u>

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2012	\$ 11,468	\$ 209	\$ 11,677
2013	6,067	129	6,196
2014	4,803	120	4,923
2015	14,055	116	14,171
2016	7,958	104	8,062
2017 - 2021	28,174	323	28,497
2022 - 2026	681	91	772
Total Requirements	<u>\$ 73,206</u>	<u>\$ 1,092</u>	<u>\$ 74,298</u>

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2011, TxDOT capitalized roadways and recognized a pass-through toll payable as a long-term liability of \$216.4 million from new roadways and \$442.1 million from previous years as completed projects and sections of pass-through projects in various cities and counties. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables to the left.

General obligation bonds and revenue bonds are described in detail in Note 6.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 8.

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment;
- The state is in violation of a pollution prevention-related permit or license;
- The state is named as a potentially responsible party by a regulator;
- The state is named in a lawsuit that compels it to participate in remediation; and/or
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2011, the state is

expected to recover \$30 thousand to offset remediation costs related to various contaminated sites.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

Other Pollution Remediation Activity: Texas Tech University remediation activities for land it owns in Carson County, Texas, could not be reasonably estimated as of Aug. 31, 2011.

NOTE 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas had 511 bond issues outstanding as of Aug. 31, 2011. During fiscal 2011 the state paid \$467.7 million from the general revenue fund for debt service.

Information on Bond Issuances

August 31, 2011

	Bond Issues Outstanding				Maturities		First Call Date
Description of Issue	Number	Amount (in Thousands)			First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	72	\$ 13,584,468	0.40	6.07	1998	2045	07/01/03
Revenue Bonds	23	6,186,745	2.50	7.50	1991	2040	02/01/01
Governmental Activities Total	95	19,771,213					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	93	4,097,822	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	298	24,404,529	0.63	15.00	1988	2047	05/04/95
Business-Type Activities Total	391	28,502,351					
COMPONENT UNITS							
Revenue Bonds	25	444,109	5.25	7.10	1986	2041	10/08/86
Total	511	\$ 48,717,673					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Bonds Outstanding 9/1/10	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/11	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 10,085,579	\$ 2,030,712	\$ 392,022	\$ 204,725	\$ 11,519,544	\$ 352,500
Revenue Bonds	<u>5,620,060</u>	<u>4,018</u>	<u>168,471</u>	<u>204,725</u>	<u>5,455,607</u>	<u>176,724</u>
Governmental Activities Total	<u>15,705,639</u>	<u>2,034,730</u>	<u>560,493</u>	<u>204,725</u>	<u>16,975,151</u>	<u>529,224</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,943,752	217,252	133,688	71,665	2,955,651	118,614
Revenue Bonds	<u>17,042,975</u>	<u>3,123,908</u>	<u>693,787</u>	<u>706,234</u>	<u>18,766,862</u>	<u>2,241,872</u>
Business-Type Activities Total	<u>19,986,727</u>	<u>3,341,160</u>	<u>827,475</u>	<u>777,899</u>	<u>21,722,513</u>	<u>2,360,486</u>
COMPONENT UNITS						
Revenue Bonds	<u>361,769</u>	<u>55,000</u>	<u>80,260</u>		<u>336,509</u>	<u>42,840</u>
Total	<u>\$ 36,054,135</u>	<u>\$ 5,430,890</u>	<u>\$ 1,468,228</u>	<u>\$ 982,624</u>	<u>\$ 39,034,173</u>	<u>\$ 2,932,550</u>

* Includes current year amortization of accretion, premiums and discounts.

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 330,930	\$ 506,051	\$ 836,981	\$ 170,650	\$ 282,373	\$ 453,023
2013	354,975	500,730	855,705	172,015	274,939	446,954
2014	362,955	488,233	851,188	174,925	267,382	442,307
2015	391,850	474,619	866,469	162,130	259,636	421,766
2016	374,970	457,925	832,895	165,075	251,914	416,989
2017 - 2021	1,652,485	2,059,168	3,711,653	862,430	1,137,501	1,999,931
2022 - 2026	1,852,590	1,655,699	3,508,289	1,324,875	890,001	2,214,876
2027 - 2031	2,038,275	1,187,362	3,225,637	1,399,465	530,927	1,930,392
2032 - 2036	2,128,135	699,561	2,827,696	451,815	258,875	710,690
2037 - 2041	1,647,725	176,398	1,824,123	490,610	76,311	566,921
2042 - 2046	45,000	378	45,378			
	11,179,890 *	8,206,124	19,386,014	5,373,990 *	4,229,859	9,603,849
Accretion	(24,522)		(24,522)	(4,420)		(4,420)
Premium	364,358		364,358	104,328		104,328
Discount	(182)		(182)	(18,291)		(18,291)
Total	\$ 11,519,544	\$ 8,206,124	\$ 19,725,668	\$ 5,455,607	\$ 4,229,859	\$ 9,685,466

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 117,584	\$ 56,498	\$ 174,082	\$ 2,190,130	\$ 749,960	\$ 2,940,090
2013	127,762	53,955	181,717	646,267	721,270	1,367,537
2014	136,860	51,223	188,083	682,640	691,259	1,373,899
2015	142,279	48,238	190,517	751,718	658,905	1,410,623
2016	141,062	45,280	186,342	792,455	623,186	1,415,641
2017 - 2021	728,260	183,007	911,267	4,175,756	2,547,409	6,723,165
2022 - 2026	650,360	109,695	760,055	2,995,523	1,760,903	4,756,426
2027 - 2031	522,485	55,689	578,174	2,558,490	1,167,670	3,726,160
2032 - 2036	266,065	31,257	297,322	2,203,997	744,064	2,948,061
2037 - 2041	97,610	9,868	107,478	1,944,404	364,079	2,308,483
2042 - 2046	10,775	1,524	12,299	545,712	51,538	597,250
2047 - 2051	1,400	72	1,472	35,255	1,190	36,445
	2,942,502 *	646,306	3,588,808	19,522,347 *	10,081,433	29,603,780
Accretion	(1,008)		(1,008)	(1,244,644)		(1,244,644)
Premium	14,157		14,157	565,312		565,312
Discount				(16,788)		(16,788)
Loss on Refunding				(59,365)		(59,365)
Total	\$ 2,955,651	\$ 646,306	\$ 3,601,957	\$ 18,766,862	\$ 10,081,433	\$ 28,848,295

COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2012	\$ 42,840	\$ 6,532	\$ 49,372
2013	3,725	9,451	13,176
2014	3,933	9,298	13,231
2015	4,169	9,136	13,305
2016	4,154	8,963	13,117
2017 - 2021	24,266	42,079	66,345
2022 - 2026	93,422	36,152	129,574
2027 - 2031	48,092	27,127	75,219
2032 - 2036	68,203	13,891	82,094
2037 - 2041	33,132	1,963	35,095
2042 - 2046	970	35	1,005
	326,906 *	164,627	491,533
Premium	9,603		9,603
Total	\$ 336,509	\$ 164,627	\$ 501,136

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation**, through the Texas mobility fund, issues general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provide funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. Debt service payments on bonds issued are limited to the \$131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2011, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

General Obligation Bonds Authorized But Unissued	
(Amounts in Thousands)	
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	\$ 46,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,954,414
Water Development Bonds	765,976
College Student Loan Bonds	275,490
Texas Military Value Revolving Loan Fund	200,405
Total	<u>3,717,285</u>
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,258,005
Transportation Commission Transportation Bonds	4,000,002
Water Development Bonds -	
Economically Distressed Areas Program	201,975
Water Infrastructure Fund Program	200,000
Total	<u>7,824,822</u>
Total General Obligation Bonds	<u>\$ 11,542,107</u>

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

The **Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from

the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. The agency also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and to carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the state water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets at Aug. 31, 2011, excluding real estate, was \$11 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented below.

Permanent University Fund Bonds			
(Amounts in Thousands)			
	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 2,193,592	\$ 1,454,230	\$ 739,362
Texas A&M University System	1,096,796	543,425	553,371
Total	<u>\$ 3,290,388</u>	<u>\$ 1,997,655</u>	<u>\$ 1,292,733</u>

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are not an obligation of the state of Texas.

The Office of the Governor is the oversight agency for the **Texas Small Business Industrial Development Corporation**, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program provides financing to state and local governments and to businesses and non-profit corporations for the purchase of land, facilities and equipment for economic development. The bonds are not an obligation of the state and are payable from the repayment of loans and investment earnings on the bond proceeds.

The **Texas Water Resources Finance Authority**, a discretely presented component unit of the state, issues bonds to purchase the majority of existing political subdivision bonds held by the Texas Water Development Board. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues, amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties.

The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

The **Private Activity Bond Surface Transportation Corporation**, a blended component unit of the state, issued \$1 billion of revenue bonds during fiscal 2010. The proceeds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance costs and construction of:

- the Dallas County Interstate Highway 635 Managed Lanes Project and
- the Tarrant County North Tarrant Express Facility.

Additionally, the proceeds pay for certain costs of issuance of the bonds. Debt service is funded from loan and interest repayments from the borrowers.

The **Texas Workforce Commission** issued \$1.9 billion of revenue bonds to fund the Workers' Compensation Insurance Fund. The bond obligations are secured by a special obligation assessment imposed on Texas employers.

Non Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state

agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from state appropriations-funded rent payments made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

Build America Bonds

The American Recovery and Reinvestment Act of 2009 (ARRA) was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Taxable bonds may be issued by governmental entities, includ-

ing state agencies and institutions of higher education, as Tax Credit BABs or as Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local governmental issuers equal to 35 percent of the interest paid on the bonds. Authority to issue BABs expired on Dec. 31, 2010.

The Texas Department of Transportation and the University of Texas System issued Direct Payment BABs in the amount of \$1.4 billion during fiscal 2011. All were issued as new debt. No Tax Credit BABs were issued during the fiscal year.

Variable Rate Bonds

Ten state agencies had a total of 106 variable rate bond issues with outstanding balances as of Aug. 31, 2011. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential volatility for related debt services increases with these interest rate reset provisions.

Pledged Future Revenue

(Amounts in Thousands)

	GO Bonds	Revenue Bonds		
	Governmental Activities	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$ 11,747,619	\$ 9,603,849	\$ 29,603,780	\$ 491,533
Term of Commitment Year Ending August 31,	2039	2040	2047	2041
Percentage of Revenue Pledged	98%	100%	100%	100%
Current Year Pledged Revenue	381,948	6,085,973	12,864,956	97,297
Current Year Principal and Interest Paid	332,962	425,458	1,429,856	90,151

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2011.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days.

Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2011, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the tables below and on the following page.

Demand Bonds						
(Amounts in Thousands)						
	Number of Demand Bond Issues 8/31/11	Standby Purchase Agreement	Letter of Credit	Other	Bonds Held By Liquidity Providers 8/31/11	Principal Balance Outstanding 8/31/11
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Office of the Governor	2			2 b	None	\$ 45,000
Texas Department of Transportation	2	3 a	—	—	None	232,315
	<u>4</u>	<u>3</u>	<u>—</u>	<u>2</u>	<u>None</u>	<u>277,315</u>
Revenue Bonds						
Texas Department of Transportation	1	1 a	—	—	None	100,000
	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>100,000</u>
Governmental Activities Total	<u>5</u>	<u>4</u>	<u>—</u>	<u>2</u>	<u>None</u>	<u>\$ 377,315</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
Veterans Land Board	43	43 a	—	—	None	\$ 1,670,500
	<u>43</u>	<u>43</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>1,670,500</u>
Revenue Bonds						
University of Texas System	4			4 b	None	1,378,030
Texas Department of Housing and Community Affairs	7	7 a	—	—	None	307,865
University of Houston System	1			1 b	None	10,385
	<u>12</u>	<u>7</u>	<u>—</u>	<u>5</u>	<u>None</u>	<u>1,696,280</u>
Business-Type Activities Total	<u>55</u>	<u>50</u>	<u>—</u>	<u>5</u>	<u>None</u>	<u>\$ 3,366,780</u>
COMPONENT UNITS						
Revenue Bonds						
Office of the Governor	1		1 c	—	None	\$ 60,000
Component Units Total	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>None</u>	<u>\$ 60,000</u>

a – See Demand Bonds - Standby Purchase Agreements table.

b – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

c – In the event redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

Demand Bond – Standby Purchase Agreements

Counterparties	Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Bank of Tokyo-Mitsubishi UFJ	2	0.5600%	08/22/14
California Public Employees Retirement System	1	0.0500%	12/13/13
Comptroller of Public Accounts*	7	0.1200%	08/31/12
Comptroller of Public Accounts*	3	0.1200%	08/31/13
DEPFA Bank plc	1	0.0800%	04/08/12
J.P. Morgan Chase Bank	1	0.6500%	03/07/14
J.P. Morgan Chase Bank	9	0.5600%	07/03/14
J.P. Morgan Chase Bank	3	0.5600%	09/19/14
Landesbank Hessen-Thüringen Girozentrale	5	0.5500%	06/30/13
Landesbank Hessen-Thüringen Girozentrale	4	0.5500%	12/31/15
Lloyds TSB Bank plc	1	0.4800%	08/20/12
Lloyds TSB Bank plc	1	0.4800%	09/01/12
Lloyds TSB Bank plc	1	0.4800%	11/18/12
State Street Bank and Trust Company	4	0.2500%	02/01/12
State Street Bank and Trust Company	1	0.0500%	12/13/13
State Street Bank and Trust Company	4	0.2950%	11/17/14
Sumitomo Mitsui Banking Corp	2	0.7500%	08/11/12
Sumitomo Mitsui Banking Corp	1	0.6000%	05/20/13
Sumitomo Mitsui Banking Corp	1	0.6000%	11/01/13
Wells Fargo Bank, NA	1	0.4900%	08/25/14
Total	54		

* Comptroller of Public Accounts Treasury Operations Division

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The table below provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

(Amounts in Thousands)

	Estimated Debt Service	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	\$ 92,318 a	3.56%	Daily Fed Fds Rate + 1.25%
Series 2006B	158,732 b	4.37%	1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	108,943 c	5.37%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	\$ 359,993		

a – Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.

b – Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.

c – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

The following table presents early debt extinguishments in fiscal 2011. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Veterans Land Board	\$ 3,955
Texas Water Development Board	1,235
Revenue Bonds	
Texas Department of Housing and Community Affairs	309,025
Texas Water Development Board	87,685
Texas Workforce Commission	85,920
University of Texas System	4,600
University of Houston System	860
Business-Type Activities Total	<u>\$493,280</u>

Refunding

The table below summarizes bonds refunded during fiscal 2011 to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Public Finance Authority	Advance Refunding	\$ 40,095	\$ 44,300	\$ (4,588)	\$ 1,222
Texas Public Finance Authority	Current Refunding	112,145	123,905	(12,831)	3,418
Texas High Education Coordinating Board	Current Refunding	33,590	36,520	1,030	3,399
Governmental Activities Total		<u>185,830</u>	<u>204,725</u>	<u>(16,389)</u>	<u>8,039</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	Advance Refunding	18,970	18,970	5,455	2,617
Veterans Land Board	Current Refunding	47,505	47,505	10,129	4,637
		<u>66,475</u>	<u>66,475</u>	<u>15,584</u>	<u>7,254</u>
Revenue Bonds					
Texas A&M University System	Advance Refunding	22,335	22,955	3,019	2,662
		<u>22,335</u>	<u>22,955</u>	<u>3,019</u>	<u>2,662</u>
Business-Type Activities Total		<u>88,810</u>	<u>89,430</u>	<u>18,603</u>	<u>9,916</u>
Total		<u>\$ 274,640</u>	<u>\$ 294,155</u>	<u>\$ 2,214</u>	<u>\$ 17,955</u>

* The par value of refunding issue does not include bonds issued to refund notes payable, which had a par value of approximately \$361 million.

Defeased Bonds

Texas defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease \$341.3 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. The Texas Water Development Board defeased \$195.2 million of business-type activity revenue bonds this year. As of Aug. 31, 2011, the following amounts of defeased bonds, at par, remain outstanding for all bond issuers.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

General Obligation Bonds

Texas Public Finance Authority \$ 324,565

Revenue Bonds

Texas Public Finance Authority 42,865

Texas National Research Laboratory Commission 16,690

Governmental Activities Total 384,120

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds

Texas Water Development Board 48,950

Veterans Land Board 45,155

Revenue Bonds

University of Texas System 1,650,118

Texas Water Development Board 188,890

Texas State University System 100,595

Texas A&M University System 82,275

Texas Tech University System 81,985

University of North Texas System 69,330

Stephen F. Austin State University 1,431

Business-Type Activities Total 2,268,729

Total \$2,652,849

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2011, there were 16 series of multifamily housing revenue bonds outstanding with an aggregate \$297 million principal amount payable. No bonds were issued in fiscal 2011.

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are detailed in this note. For additional information on derivatives, see Note 7.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2011, the debt service requirements of the state's variable rate and fixed rate bonds and associated net swap payments were estimated and are presented in the following tables.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2012	\$ 92,190	\$ 5,223	\$ 122,184	\$ 219,597
2013	102,340	5,093	118,549	225,982
2014	104,680	4,925	114,500	224,105
2015	116,465	4,749	110,414	231,628
2016	124,715	4,550	105,635	234,900
2017 - 2021	613,910	19,491	452,654	1,086,055
2022 - 2026	675,270	13,948	326,433	1,015,651
2027 - 2031	640,140	8,466	199,283	847,889
2032 - 2036	520,205	3,938	94,325	618,468
2037 - 2041	269,095	598	14,215	283,908
2042 - 2046	1,475	1	16	1,492
Total	<u>\$ 3,260,485</u>	<u>\$ 70,982</u>	<u>\$ 1,658,208</u>	<u>\$ 4,989,675</u>

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net *	Total
	Principal	Interest		
2012	\$ 845	\$ 345	\$ (294)	\$ 896
2013	890	343	(340)	893
2014	950	341	(341)	950
2015	1,010	339	(341)	1,008
2016	1,070	336	(342)	1,064
2017 - 2021	6,430	1,643	(1,718)	6,355
2022 - 2026	8,705	1,561	(1,739)	8,527
2027 - 2031	161,780	1,044	(1,518)	161,306
2032 - 2036	2,665	6	(871)	1,800
2037 - 2041			(138)	(138)
Total	<u>\$ 184,345</u>	<u>\$ 5,958</u>	<u>\$ (7,642)</u>	<u>\$ 182,661</u>

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds are reported only in the pay-fixed, receive-variable swap table.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2012	\$ 3,215	\$ 66,124	\$ (6,315)	\$ 63,024
2013	4,185	65,994	(5,738)	64,441
2014	5,115	65,827	(5,547)	65,395
2015	6,045	65,622	(5,547)	66,120
2016	6,955	65,381	(5,547)	66,789
2017 - 2021	133,405	317,972	(27,740)	423,637
2022 - 2026	311,455	260,885	(27,852)	544,488
2027 - 2031	450,380	173,246	(314)	623,312
2032 - 2036	431,045	53,169	47	484,261
Total	<u>\$ 1,351,800</u>	<u>\$ 1,134,220</u>	<u>\$ (84,553)</u>	<u>\$ 2,401,467</u>

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

NOTE 7

Derivative Instruments

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts and forward contracts.

Hedging derivatives are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivatives are entered into with the intention of managing transaction risk or reducing interest cost in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

Summary of Derivative Activity

The fair value of effective hedging derivatives is reported as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred inflows and deferred outflows. The state's cumulative derivative activity as of Aug. 31, 2011, is summarized on the following page. The notional values are presented in U.S. dollar equivalents.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivatives</i>			
Basis Swaps	\$ 17,355	\$ 26,252	\$ 400,000
Futures	207		19,903
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed, Receive-Variable Interest Rate Swaps	\$ (4,193)	\$ (568,756)	\$ 3,192,265
Commodity Forward	(6,984)	(6,984)	1,920
<i>Investment Derivatives</i>			
Pay-Fixed, Receive-Variable Interest Rate Swaps	\$ (3,191)	\$ (4,107)	\$ 132,597
Pay-Variable, Receive-Fixed Interest Rate Swaps	2,770	2,819	134,530
Basis Swaps	4,856	7,905	799,545
Credit Default Swaps	(1,604)	(406)	192,685
Equity Swaps	(60,175)	(60,175)	866,124
Commodity Swaps	(188)	(188)	1,135
Forwards	(10,726)	(10,726)	4,013,272
Futures	9,954		753,830
Options	(30,271)	139,063	30,726,319
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Pay-Fixed, Receive-Variable Interest Rate Swaps	\$ (612)	\$ (1,931)	\$ 179,622
Pay-Variable, Receive-Fixed Interest Rate Swaps	744	1,010	133,908
Total Return Swaps	1,750,091	(64,858)	5,744,158
Credit Default Swaps	(92)	(270)	5,100
Forwards	(49,953)	(27,321)	11,619,783
Futures	220,712		14,149,498
Warrants	881	104	355

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)

Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)

Hedging derivatives

University of Texas System (UT)

Hedging and investment derivatives

Texas A&M University System (A&M)

Hedging and investment derivatives

Texas Department of Transportation (TxDOT)

Investment derivatives

Permanent School Fund (PSF)*

Investment derivatives

Teacher Retirement System of Texas (TRS)

Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited standalone annual financial report.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods as outlined below.

VLB and UT used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision that provides for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent and is optional at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the

knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

TDHCA based the fair value of its swaps on market conditions as of Aug. 31, 2011. Fair values were directly obtained by the counterparties to the transactions and separately verified by an independent third party. Valuations are based on mid-market levels and may not reflect the amount a counterparty would have required in the event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

Futures contracts are valued at closing market prices on the valuation date. Futures contracts are marked-to-market daily. The net offsetting positions are reported as accruals, with a daily variation margin (the gain or loss) recorded between the daily value of the contracts and the value on the previous day. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

HEDGING DERIVATIVES

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives

for each category of effective hedges are summarized as follows:

- ***Pay-fixed Interest Rate Swaps:*** The combination of these swaps and variable rate bonds creates synthetic fixed rate debt. The use of synthetic fixed rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed rate bonds.
- ***Commodity Forward:*** The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. The outstanding commodity forward contracts as of Aug. 31, 2011, include contracts with future expiration dates extending from September 2011 through August 2013. Contracts will be cash-settled on the expiration date based on New York Mercantile Exchange (NYMEX) market price.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2011, are presented in the following tables. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor Service credit ratings are disclosed for each swap and forward contract. The notional amount for the commodity forward is expressed as MMBTUs, which represents a million British thermal units.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	\$43,375	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	23,140	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Land Tax Ref Bds Ser '2000	39,655	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	16,945	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2003A	34,345	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	35,620	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2003	22,365	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2004B	38,555	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2004	21,685	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	32,305	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	38,155	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2005	20,210	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	23,580	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2005C	15,275	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	39,805	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006A	27,260	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006C	19,680	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006B	21,325	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2006D	41,880	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006C	35,455	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2007C	37,185	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	42,050	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	44,145	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	44,530	03/26/2008	06/01/2037	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	45,730	09/11/2008	06/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	16,455	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	64,850	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2010B	65,400	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Bds Ser 2010C	74,995	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Tax Ref Bds Ser 2010D	16,480	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Tax Ref Bds Ser 2010E	49,325	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Bds Ser 2011A	74,995	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	74,995	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	08/01/2035	Pay 3.76%; receive 68% of 1M LIBOR

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	\$	A- /Baa1
Vet Land Ref Bds Ser '99A	N/A		A- /Baa1
Vet Land Tax Ref Bds Ser '2000	1M LIBOR >= 7.00%	2,700	AAA / Aa1
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A+ / A1
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aa1
Vet Land Bds Ser 2002	N/A		A / A2
Vet Hsg Fund II Bds Ser 2002A-2	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2002	6M LIBOR >= 7.00%	2,785	A / A2
Vet Hsg Fund I Tax Ref Bds Ser 2002B	6M LIBOR > 7.00%	2,165	AAA / Aa1
Vet Hsg Fund II Bds Ser 2003A	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aa1
Vet Land Tax Ref Bds Ser 2003	1M LIBOR >= 7.00%	1,896	AA- / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2003	6M LIBOR > 7.00%	4,470	AAA / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	1,442	AA- / Aa1
Vet Hsg Fund II Bds Ser 2004B	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	2,075	A / A2
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	1M LIBOR >= 7.00%	2,594	AA- / Aa1
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aa1
Vet Land Tax Ref Bds Ser 2005	6M LIBOR >= 7.00%	1,542	AA- / Aa1
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,367 567	AA- / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	484 267	AA- / Aa1
Vet Hsg Fund II Bds Ser 2006A	N/A		A+ / As3
Vet Land Tax Ref Bds Ser 2006A	6M LIBOR >= 7.00%	1,931	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006C	6M LIBOR >= 7.00%	1,493	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006B	1M LIBOR >= 7.00%	1,992	AA- / Aa1
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 7.00%	886	AAA / Aa1
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2006C	1M LIBOR >= 7.00%	2,725	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006E	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,652 1,018	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2007C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	AA- / Aa1
Vet Hsg Fund II Bds Ser 2007A	N/A		AAA / Aa1
Vet Hsg Fund II Bds Ser 2007B	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2008A	N/A		A+ / As3
Vet Hsg Fund II Bds Ser 2008B	N/A		AAA / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	612	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	2,740	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2010B	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,355 1,427	AA- / Aa1
Vet Bds Ser 2010C	N/A		A / A2
Vet Tax Ref Bds Ser 2010D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	466 208	AA- / Aa1
Vet Tax Ref Bds Ser 2010E	N/A		AAA / Aa1
Vet Bds Ser 2011A	N/A		A+ / As3
Vet Bds Ser 2011B	N/A		A+ / As3
Vet Homes Rev Ref Bds, Ser 2012	1M LIBOR >= 7.00%	579	A+ / As3

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	\$53,000	09/01/2004	09/01/2034	Pay 3.84%; receive 63% of LIBOR + .30%
2004D Single Family	35,000	01/01/2005	03/01/2035	Pay 3.64%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2005A Single Family	70,820	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2006H Single Family	36,000	11/15/2006	09/01/2025	Pay 3.86%; receive 63% of LIBOR + .30%
2007A Single Family	104,290	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS*				
PUF Bonds 2008A	198,113	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	198,113	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2007B	167,388	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	167,388	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2008B	145,530	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	145,530	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	348,905	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA

* PUF denotes permanent university fund and RFS denotes revenue financing system.

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

	Number of Contracts	Notional Amount	Effective Dates Range*	Termination Dates Range*	Terms: Pay (Average)	Terms: Receive	Counterparty Credit Ratings
2012 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2011 - 08/01/2012	\$7.36/ MMBTU	NYMEX market price	AA
2013 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2012 - 08/01/2013	\$7.44/ MMBTU	NYMEX market price	AA

* A&M invested in several separate commodity forward contracts. This disclosure summarizes the contracts by establishing ranges and averages of detailed individual contract information.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A	\$	A+/Aa3
2004D Single Family	N/A		Aa3
2005A Single Family	N/A		AA- / Aa1
2006H Single Family	N/A		A+/Aa3
2007A Single Family	N/A		AA- / Aa1
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
PUF Bonds 2008A	N/A		A/A2
PUF Bonds 2008A	N/A		AA-/Aa1
RFS Bonds 2007B	N/A		AA/Aa1
RFS Bonds 2007B	N/A		A+/Aa3
RFS Bonds 2008B	N/A		AA-/Aa1
RFS Bonds 2008B	N/A		A/A2
RFS Bonds 2008B	N/A		AA-/Aa1

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2011, the state was not exposed to credit risk because the swap recorded in the positive position was offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as LIBOR and the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable

rate debt, as LIBOR or the SIFMA municipal swap index decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swaps. The state mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable rate bond issue and (b) selecting an index for the variable rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due

to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

The state is exposed to basis risk on its commodity forward contracts because the expected commodity purchase will be priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contract is expected to settle on the NYMEX pricing point. As of Aug. 31, 2011, the Waha price was \$3.89 per MMBTU and the NYMEX price was \$4.06 per MMBTU.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser '2000 provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps were terminated, the associated variable rate bonds would no longer have a synthetic fixed rate and the state would be subject to interest rate risk to the extent that the variable rate bonds were not hedged with another swap or with variable rate assets. Unless there is a termination option exercised by the counterparty, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The state's effective interest rate swaps were not subject to rollover risk because the maturity dates of the swaps extend to the maturity dates of the related bonds.

Market-access Risk: Each swap associated with underlying variable rate debt subject to tender at the option of the bondholder is subject to market access risk. In the event the state is unable to remarket its variable rate bonds, the state may choose to refund the variable rate bonds with fixed rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state may be required to pay or receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Standard & Poor's and Moody's Investor Service. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Detail about derivatives with contingent features is disclosed in Note 15.

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. Detail about the state's investment derivatives is disclosed in Note 3.

NOTE 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriation from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for the year ended Aug. 31, 2011, are \$305.5 million for the primary government and \$4.7 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2011.

Noncancelable Operating Lease Obligations

August 31, 2011 (Amounts in Thousands)

Year	Minimum Future Lease Payments	
	Primary Government	Component Units
2012	\$ 246,439	\$ 3,655
2013	200,308	3,319
2014	156,350	2,738
2015	123,496	1,899
2016	96,146	633
2017 – 2021	192,847	1,307
2022 – 2026	9,377	
2027 – 2031	4,853	
2032 – 2036	2,493	
2037 – 2041	2,444	
2042 and beyond	9	
Total	<u>\$ 1,034,762</u>	<u>\$ 13,551</u>

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2011.

Noncancelable Operating Lease Rentals

August 31, 2011 (Amounts in Thousands)

Year	Minimum Future Lease Rentals
	Primary Government
2012	\$ 23,714
2013	20,821
2014	16,687
2015	13,213
2016	11,650
2017 and beyond	78,894
Total	<u>\$ 164,979</u>

The historical cost of the PSF leased assets is \$352 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2011, PSF reported contingent rental revenues in the amount of \$146 thousand.

As of Aug. 31, 2011, the carrying value of UT's leased assets is \$72.3 million. The historical cost of UT's leased buildings is \$100.2 million and related accumulated depreciation is \$31.2 million. The historical cost of UT's leased land is \$3.3 million. UT did not report any contingent rental revenues.

As of Aug. 31, 2011, the carrying value of A&M's leased assets is \$49.7 million. The historical cost of A&M's leased buildings is \$75.9 million and related accumulated depreciation is \$27.2 million. The historical cost of A&M's leased land is \$1.1 million. In fiscal

2011, A&M reported contingent rental revenues of \$700 thousand.

As of Aug. 31, 2011, the carrying value of Tech's leased building space is \$6.7 million. The historical cost of Tech's leased building space is \$13.8 million and the related accumulated depreciation is \$7.1 million. The historical cost, accumulated depreciation and the carrying value of the leased building space represents 5.4 percent of the full carrying value of the leased buildings. Tech did not report any contingent rental revenues.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments									
August 31, 2011 (Amounts in Thousands)									
Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2012	\$ 4,863	\$ 998	\$ 5,861	\$ 2,765	\$ 852	\$ 3,617	\$ 48	\$ 6	\$ 54
2013	4,905	719	5,624	2,424	769	3,193	48	6	54
2014	3,422	404	3,826	2,071	653	2,724	47	6	53
2015	987	135	1,122	1,920	549	2,469			
2016				1,703	455	2,158			
2017 - 2021				5,105	1,429	6,534			
2022 - 2026				3,056	581	3,637			
2027 - 2031				1,440	80	1,520			
Total	<u>\$14,177</u>	<u>\$ 2,256</u>	<u>\$16,433</u>	<u>\$20,484</u>	<u>\$ 5,368</u>	<u>\$25,852</u>	<u>\$ 143</u>	<u>\$ 18</u>	<u>\$ 161</u>

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2011.

Assets Under Capital Leases						
August 31, 2011 (Amounts in Thousands)						
Type	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	\$	\$	\$ 11	\$	\$	\$
Buildings	18,084	13,317	19,837	3,225		
Furniture and Equipment	3,924	635	9,945	1,750	238	60
Vehicles, Boats, etc.	9,249	684	234	23		
Total	<u>\$31,257</u>	<u>\$14,636</u>	<u>\$30,027</u>	<u>\$ 4,998</u>	<u>\$ 238</u>	<u>\$ 60</u>

NOTE 9

Retirement Plans

The state of Texas contributes to six defined benefit pension plans and one defined contribution plan that provide financial benefits to retired employees, their spouses and beneficiaries of the state of Texas, school districts and other entities. The defined benefit pension plans are administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), which are component units, and the Fire Fighters' Pension Commissioner (FPC), which is part of the primary government. The state is a participating employer in these plans with the exception of the FPC defined benefit pension plan. The state is not an employer in the FPC plan, but makes on-behalf contributions to the FPC plan. The state makes employer contributions to the defined contribution plan, Optional Retirement Program (ORP), which benefits certain employees of institutions of higher education. This plan is administered by the employers of institutions of higher education.

The state's contributions to these plans are authorized by statute and may be amended by the Legislature. The state reports the pensions' financial activities in the other employee benefit trust funds column of the fiduciary funds financial statements. The investments of the pension funds are included in Note 3.

The Texas Guaranteed Student Loan Corporation's (TGS LC) defined contribution pension plan is disclosed because the TGS LC is a component unit of the state, but the state is not considered an employer of the plan and does not contribute to the plan.

Audited financial statements for each defined benefit pension plan may be obtained from:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commissioner
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

Additional information for each defined contribution plan may be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711-2788

Texas Guaranteed Student Loan Corporation
P.O. Box 83100
Round Rock, Texas 78683-3100

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. The employers of the ERS Plan are the state of Texas and one discrete component unit of the state of Texas, the State Bar of Texas. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and the Judicial Retirement System of Texas Plan One and Plan Two (JRS) are considered single-employer defined benefit pension plans.

Contribution Rates

Plan	Employer			Members		
	Employee	Elected – Legislators	Elected – Other	Employee	Elected – Legislators	Elected – Other
ERS	6.95%	6.45%	6.95%	6.50%	8.00%	6.50%
LECOS	1.59%	N/A	N/A	0.50%	N/A	N/A
JRS1	N/A	N/A	N/A	6.00%	N/A	N/A
JRS2	16.83%	N/A	N/A	6.00%	N/A	N/A
TRS	6.64%	N/A	N/A	6.40%	N/A	N/A

Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two, under which the state contribution rate is actuarially determined every even-numbered year for the next biennium. Each plan's monthly contribution requirements are disclosed in the table above.

The ERS audited financial statements reflect the results of the actuarial valuations of the four plans it administers. The statements do not note any subsequent legislative action that would negatively affect the certification of actuarial soundness of the plans.

The ERS Plan, established by the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

The elected class members are vested after eight years of service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change. The maximum standard annuity is 100 percent of the state salary of a district judge.

The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Other employee class members include certified peace officers and custodial officers. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the ERS employee class plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employee class retirement benefits for employees hired on or before Aug. 31, 2009, with the exception of certified peace officers and custodial officers, vest after five years of service credit and employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80. The average monthly compensation is the average of the highest 36 months of compensation.
- Employee class retirement benefits for employees hired on or after Sept. 1, 2009, with the exception of certified peace officers and custodial officers, may retire at age 65 with 10 years of service credit. Employees with 10 years of service credit may retire at any age when the sum of age and service credit (including months) equals or exceeds 80. (The years of service requirement was changed from five years to 10 years by the 82nd Legislature in 2011.) The average monthly compensation is the average of the highest 48 months of compensation. The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.

- Certified peace officers and custodial officers hired on or before Aug. 31, 2009, may retire at age 55 with 10 years of service as a certified peace officer or custodial officer. The average monthly compensation is the average of the highest 36 months of compensation. For certified peace officers and custodial officers hired on or after Sept. 1, 2009, the average monthly compensation is the average of the highest 48 months of compensation.

A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life.

LECOS, established under Texas Government Code, Chapter 814.107, provides a supplemental retirement benefit to the ERS employee class member with service rendered while a law enforcement officer, a custodial officer, a parole officer or a case worker. The monthly standard annuity equals the statutory percentage of 2.8 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the LECOS plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employees hired on or before Aug. 31, 2009, with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80. A member under the age of 50 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 36 months of compensation.
- Employees hired on or after Sept. 1, 2009, vest after 20 years of service and vested employees may retire at age 55 or at any age when the sum of age and service credit equals or exceeds 80. A member

under the age of 55 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 48 months of compensation.

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. In 2009, the 81st Legislature appropriated state funding for the LECOS plan for the biennium ending Aug. 31, 2011, based on 1.59 percent of covered payroll for LECOS members.

JRS Plan One is established by Texas Government Code, Chapter 835, and JRS Plan Two is established by Texas Government Code, Chapter 840. JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two.

Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Member contributions for JRS Plan One are made to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are not actuarially determined since the plan is not funded in advance.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, LECOS or JRS Plan 'Two plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. As of the Aug. 31, 2011, actuarial valuations, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS, LECOS and JRS Two plans over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized for either plan.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 822-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2011, the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,303 public schools, service centers, charter schools and community colleges. Employees of TRS and of state of Texas colleges, universities and medical schools are members of the TRS Plan, provided they are employed for one-half or more of the standard work load and are not exempted from membership under Texas Government Code, Section 822.002. The commissioner of the Texas Education Agency may also elect to participate in the TRS Plan in lieu of participation in the ERS Plan in the same manner and under the same conditions as other members of the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and

contribution provision of the TRS Plan are authorized by state law and may be amended by the Legislature.

A member is vested after five years of service credit and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of service credit or when the sum of the member's age and years of service credit equals at least 80 years. The service age requirement for early retirement is age 55 with five years of service credit or any age below 50 with 30 years of service credit. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit. For "grandfathered" members, the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)**
DROP allows members to freeze their standard annuity and, instead of retiring, have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)**
PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members

may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Contribution requirements are not actuarially determined, but are legally established each biennium. The TRS Plan's monthly contribution requirements are disclosed on the "Contribution Rates" table. The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation, and a state contribution rate of not less than 6 percent but not greater than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. As required by state statute, the state rate is paid by the employer for compensation paid to new members during the first 90 days of employment, on amounts paid to employees above the statutory minimum amount and on compensation paid from private or federal funds. Total employer contributions to the TRS Plan are a combination of state, public schools, federal and private funding.

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by

such action. As of the Aug. 31, 2011, actuarial valuation, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized.

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Government Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Benefits in ORP vest after one year of participation.

Retirement Systems' Membership

	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	83,430	7,728	445	208	312,680
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	84,900	5,785	5	134	76,377
Current Employees: Vested and Non-Vested	137,293	36,806	17	546	927,509
Total Members	305,623	50,319	467	888	1,316,566

Actuarial Methods and Assumptions

	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2011	Aug. 31, 2011	Aug. 31, 2011	Aug. 31, 2011	Aug. 31, 2011
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	Never	Never	30 years*	Never	Never
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-13.5%	5.5%-13.5%	3.5%	3.5%	4.25%-7.25%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

* There is no advance refunding for JRSI.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6.4 percent, respectively. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate up to 2.1 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2011 resulted in participant contributions of \$245.8 million and employer contributions of \$272.2 million.

As of Aug. 31, 2011, ORP had 39,188 participants. The total participant contributions were \$260.3 million and total employer contributions were \$309.2 million. Additional information for ORP is included in the fiscal 2011 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2011, there are 200 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. Per Texas Government Code, Section 865.015, the state is required to make a limited amount of annual appropriations to make the fund actuarially sound. The appropriations may not exceed the amount of one-third

of the total of all contributions by governing bodies in one year. For fiscal 2011, legislative appropriations in the amount of \$628 thousand were made to assist with TESRS's administrative expenses. The member fire department contributions to the fund for the year ending Aug. 31, 2011, were \$3.1 million. Contributions made were equal to the yearly statutorily required contributions.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation or asset for fiscal 2011 is presented below.

Annual Pension Cost and Net Pension Obligation/Asset

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution (ARC)	\$707,137	\$36,446	\$23,065	\$11,400	\$2,727,717
Interest on Net Pension Obligation (NPO)	35,266	2,035	6,060	(366)	51,468
Adjustment to ARC	(26,472)	(1,528)	(6,474)	478	(38,625)
Annual Pension Cost	<u>715,931</u>	<u>36,953</u>	<u>22,651</u>	<u>11,512</u>	<u>2,740,560</u>
Employer Contributions Made	<u>413,603</u>	<u>24,228</u>	<u>26,988</u>	<u>11,933</u>	<u>2,332,426</u>
Increase (Decrease) in NPO	<u>302,328</u>	<u>12,725</u>	<u>(4,337)</u>	<u>(421)</u>	<u>408,134</u>
Net Pension Obligation/(Asset), September 1, 2010	<u>440,823</u>	<u>25,444</u>	<u>75,745</u>	<u>(4,576)</u>	<u>637,713</u>
Restatement					<u>5,634</u>
Net Pension Obligation/(Asset), September 1, 2010, as Restated	<u>440,823</u>	<u>25,444</u>	<u>75,745</u>	<u>(4,576)</u>	<u>643,347</u>
Net Pension Obligation/(Asset), August 31, 2011*	<u>\$743,151</u>	<u>\$38,169</u>	<u>\$71,408</u>	<u>\$ (4,997)</u>	<u>\$1,051,481</u>

* See the "Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
ERS			
08/31/11	\$ 715,931	57.8%	\$ 743,151
08/31/10	634,439	63.0%	440,823
08/31/09	530,647	68.3%	206,152
LECOS			
08/31/11	\$ 36,953	65.6%	\$ 38,169
08/31/10	34,141	81.4%	25,444
08/31/09	33,317	62.0%	19,102
JRS1			
08/31/11	\$ 22,651	119.1%	\$ 71,408
08/31/10	23,014	118.6%	75,745
08/31/09	24,868	113.4%	80,034
JRS2			
08/31/11	\$ 11,512	103.7%	\$ (4,997)
08/31/10	12,066	95.4%	(4,576)
08/31/09	13,153	86.3%	(5,131)
TRS*			
08/31/11	\$ 2,740,560	85.1%	\$ 1,051,481
08/31/10	2,667,179	86.1%	637,713
08/31/09	1,278,488	107.5%	213,926

* In fiscal 2010, the Net Pension Obligation was restated for fiscal years 1998 through 2009 to include reporting entity contributions.

Funded Status

The state's pension plans funded status information for each plan as of Aug. 31, 2011, is presented in the table below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Included in the audited financial reports for ERS and TRS are:

- Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due, and
- Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGS LC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGS LC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGS LC. As of June 30, 2011, there were 701 participants in the Plan. Employees do not contribute to the Plan; TGS LC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$38.4 million and \$36.5 million, respectively, in the Plan year ended June 30, 2011. Total TGS LC contributions were approximately \$3.1 million for the fiscal year ended Sept. 30, 2011. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGS LC Board of Directors' ratification.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
ERS						
08/31/11	\$ 23,997,445	\$ 28,398,213	\$ (4,400,768)	84.5%	\$ 5,795,185	(75.9)%
LECOS						
08/31/11	\$ 830,522	\$ 960,953	\$ (130,431)	86.4%	\$ 1,475,432	(8.8)%
JRS1						
08/31/11	\$ 0	\$ 245,777	\$ (245,777)	0.0%	\$ 2,200	(11,171.7)%
JRS2						
08/31/11	\$ 283,936	\$ 300,163	\$ (16,227)	94.6%	\$ 69,655	(23.3)%
TRS						
08/31/11	\$ 115,252,828	\$ 139,315,090	\$ (24,062,262)	82.7%	\$ 36,797,011	(65.4)%

NOTE 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan.

NOTE 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act.

The state of Texas is a participating employer in three OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the UT System Employee Group Insurance Program (UT Plan) and the A&M System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System (UT) and the A&M Plan is administered by the Texas A&M University System (A&M).

UT and A&M each issue a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at:

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and

A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. The three year history of employer contributions and annual OPEB costs is presented in the “Three-Year Trend Information” table.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/11	\$ 124,280	\$ 595,169	20.9%	\$ 1,766,652
8/31/10	117,023	571,761	20.5%	1,295,763
8/31/09	105,356	523,703	20.1%	841,025
A&M Plan				
8/31/11	\$ 40,489	\$ 174,919	23.1%	\$ 476,809
8/31/10	40,174	162,680	24.7%	342,379
8/31/09	37,325	116,890	31.9%	219,873

For the fiscal year ended Aug. 31, 2011, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates are presented in the table at the top right. Costs are estimated by an actuary for claims expected to be

paid during the year. The retiree contributes any premium over and above state contributions.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2011

Level of Coverage	UT Plan	A&M Plan
Retiree Only	\$ 440	\$ 391
Retiree/Spouse	671	576
Retiree/Children	588	507
Retiree/Family	820	668

Annual OPEB Cost and Net OPEB Obligation

The state’s annual OPEB cost for the UT and A&M plans is calculated based on the annual required contributions (ARC) of the employers. The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table presents the components of the annual OPEB cost for the year for the UT and A&M plans.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution (ARC)	\$ 571,607	\$ 168,270
Interest on Net OPEB Obligation	90,703	24,994
Adjustment to ARC	(67,141)	(18,345)
Annual OPEB Cost	595,169	174,919
Employer Contributions Made	124,280	40,489
Increase Net OPEB Obligation	470,889	134,430
Net OPEB Obligation, September 1, 2010	1,295,763	342,379
Net OPEB Obligation, August 31, 2011	<u>\$ 1,766,652</u>	<u>\$ 476,809</u>

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2011, is disclosed below.

Funded Status (Amounts in Thousands)		
	UT Plan	A&M Plan
Actuarial Accrued Liability (AAL)	\$5,956,798	\$1,854,690
Actuarial Value of Plan Assets	0	0
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$5,956,798</u>	<u>\$1,854,690</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$5,309,413	\$1,313,538
UAAL as a Percentage of Covered Payroll	112.2%	141.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include tech-

niques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2010	Sept. 1, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	N/A	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	7.3%
Includes Inflation at	4%	3%
Health Care Trend Rates	8% initial 5.5% ultimate	10% initial 5% ultimate

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Section 1551. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 61 participating employers.

In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because SRHP is funded by multiple employers, the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability

or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. Additionally, each employer is not required to disclose the actuarial information as it relates to the entire plan on their individual employer report. Instead, the OPEB plan discloses all required actuarial calculations in the notes to their financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, institutions of higher education (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The table below summarizes the maximum monthly employer contribution toward the health and basic life premiums of eligible retirees.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2011

Level of Coverage	ERS SRHP
Retiree Only	\$ 411
Retiree/Spouse	647
Retiree/Children	569
Retiree/Family	806

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2011 the state contributed \$394.2 million to SRHP, which equaled the required contribution. In fiscal 2010 and fiscal 2009, the state contributed \$432.4 million and \$394.5 million, respectively. These contributions equaled the required contribution.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,251 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not

created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2011 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2011
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	\$ 158,724
On Behalf From State	282,891
On Behalf From Federal Government	136,888
	<u>\$578,503</u>

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Medicare Part A or Part B. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Medicare Part D

In fiscal 2011 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2011.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2011
(Amounts in Thousands)

UT Plan	\$ 10,047
A&M Plan	4,180
ERS SRHP	38,207
TRS-Care	66,258
	<u>\$118,692</u>

NOTE 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as “due from/due to.” Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as “transfers-internal activities.”

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they

were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately \$27.3 million. There is also a \$644.4 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$2.2 billion transfer from the property tax relief fund and a \$961.9 million transfer from the lottery fund to the foundation school fund for educational programs. There is also a \$1.1 billion transfer from the permanent school fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2011, is presented in the following tables.

Interfund Receivables/Payables

(Amounts in Thousands)

Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Governmental Funds						
General Fund	\$ 2,557	\$ 165	\$ 25,120	\$ 726	\$ 27,677	\$ 891
Nonmajor Governmental Funds		715		4,108		4,823
	<u>2,557</u>	<u>880</u>	<u>25,120</u>	<u>4,834</u>	<u>27,677</u>	<u>5,714</u>
Proprietary Funds						
Colleges and Universities	115,215	117,115	529,210	552,336	644,425	669,451
Nonmajor Enterprise Funds	223		2,840		3,063	
	<u>115,438</u>	<u>117,115</u>	<u>532,050</u>	<u>552,336</u>	<u>647,488</u>	<u>669,451</u>
Total	<u>\$ 117,995</u>	<u>\$ 117,995</u>	<u>\$ 557,170</u>	<u>\$ 557,170</u>	<u>\$ 675,165</u>	<u>\$ 675,165</u>

Due From/Due To

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
Governmental Funds						
General Fund	\$ 94,524	\$	\$ 1	\$ 1,087,144	\$	\$ 525
State Highway Fund	254,875			4,034		
Permanent School Fund	54			765		
Nonmajor Governmental Funds	74,726			62,470		
	<u>424,179</u>	<u>0</u>	<u>1</u>	<u>1,154,413</u>	<u>0</u>	<u>525</u>
Proprietary Funds						
Colleges and Universities	759,827		55	24,311		
Unemployment Trust Fund	17,493					
Lottery Fund				1,560		
Nonmajor Enterprise Funds	28,259			4,805		
Internal Service Fund	601			48,025		
	<u>806,180</u>	<u>0</u>	<u>55</u>	<u>78,701</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	92,842			87,831		
Private-Purpose Trust Funds				6		
Agency Funds	738			2,988		
	<u>93,580</u>	<u>0</u>	<u>0</u>	<u>90,825</u>	<u>0</u>	<u>0</u>
Discretely Presented Component Units	<u>0</u>	<u>525</u>	<u>0</u>	<u>0</u>	<u>56</u>	<u>0</u>
Total	<u>\$ 1,323,939</u>	<u>\$ 525</u>	<u>\$ 56</u>	<u>\$ 1,323,939</u>	<u>\$ 56</u>	<u>\$ 525</u>

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances—Receivables	\$ 20,286	\$ (20,286)	\$ 0
CURRENT LIABILITIES			
Internal Balances—Payables	\$ 772,724	\$ (772,724)	\$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	\$ 3,873,493	\$ 5,994,010
State Highway Fund	195,016	433,843
Permanent School Fund		1,092,809
Nonmajor Governmental Funds	2,069,934	2,823,169
	<u>6,138,443</u>	<u>10,343,831</u>
Proprietary Funds		
Colleges and Universities	5,524,885	430,279
Unemployment Trust Fund	82,959	4,134
Lottery Fund		1,023,783
Nonmajor Enterprise Funds	71,972	43,100
	<u>5,679,816</u>	<u>1,501,296</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	106,654	79,666
Private-Purpose Trust Funds		120
	<u>106,654</u>	<u>79,786</u>
Total	<u>\$ 11,924,913</u>	<u>\$ 11,924,913</u>

Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (4,179,888)
Business-Type Activities	\$ 4,179,888

NOTE 13

Classification of Fund Balances/ Net Position

The table below presents a summary of the Aug. 31, 2011, governmental fund balances by fund type and specific purpose.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the new fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented for fiscal 2011. With the exception of nonspendable fund

balances, fund balance is presented based on specific purpose as required by GASB 54. For the general revenue fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund balance is determined by the governmental function for which the funds are restricted, committed, assigned or unassigned. The governmental function is assigned to an agency and all fund balances reported by the agency reflect that function.

If a fund reported by an agency is exclusively for another governmental function and the amount is significant, the balance is reclassified to the appropriate governmental function.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

(Amounts in Thousands)

MAJOR FUNDS

General Fund

Nonspendable:

Inventory	\$ 179,574
Prepaid Items	263
Long-term Receivables	320,748
	<u>\$ 500,585</u>

Restricted for:

General Government	\$ 942,661
Education	12,722
Health and Human Services	295,362
Public Safety and Corrections	20,450
Natural Resources and Recreation	122,107
	<u>\$ 1,393,302</u>

Committed to:

General Government	\$ 1,644,257
Education	345,595
Health and Human Services	685,753
Public Safety and Corrections	151,754
Transportation	337
Natural Resources and Recreation	1,120,460
Regulatory Services	236,390
	<u>\$ 4,184,546</u>

Assigned to:

General Government	\$ 18,892
Health and Human Services	9,335
Natural Resources	611
Regulatory Services	533
	<u>\$ 29,371</u>

Unassigned:

General Government	\$ 729,518
Education	(204,620)
Employee Benefits	7

MAJOR FUNDS (concluded)

Unassigned: (concluded)

Health and Human Services	\$ 293,858
Public Safety and Corrections	75,253
Transportation	76,862
Natural Resources and Recreation	95,627
Regulatory Services	10,257
	<u>\$ 1,076,762</u>

State Highway Fund

Nonspendable:

Inventory	\$ 113,244
Prepaid Items	153
	<u>\$ 113,397</u>

Restricted for:

General Government	\$ 2,857
Public Safety and Corrections	1,268
Transportation	1,371,301
	<u>\$ 1,375,426</u>

Committed to:

Transportation	\$ 779
	<u>\$ 779</u>

Unassigned:

Public Safety and Corrections	\$ (2,859)
Transportation	(735,204)
	<u>\$ (738,063)</u>

Permanent School Fund

Nonspendable:

Permanent Fund Principal	\$ 11,392,526
Prepaid Items	6
	<u>\$ 11,392,532</u>

Restricted for:

Public School Support	15,554,726
	<u>\$ 15,554,726</u>

Concluded on the following page

Capital projects fund balances are often reported by two agencies with different governmental functions. In these instances, the fund balance is reported in the function for the project rather than being split between general government and another function. The function is determined by the specific purpose reflected for each column in the combining balance sheet – non-major capital projects funds.

The specific purpose for debt service funds is considered debt service.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB 54, balances reported as restricted in the fund financial statements plus the nonspend-

able for permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Of the \$11.8 billion reported as unrestricted net position, \$5 billion is for the economic stabilization fund. The economic stabilization fund was authorized by the Texas Constitution, Article 3, Section 49g. In November of each year a transfer is made equal to 75 percent of the excess of the prior fiscal year collections for natural gas and crude oil production taxes over 1987 collections. The Legislature may appropriate the fund for any purpose upon receiving a two-thirds vote of the members present in each house.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

(Amounts in Thousands)

NONMAJOR FUNDS

Special Revenue Funds

Nonspendable:

Inventory	\$ 382
Prepaid Items	4
	<u>\$ 386</u>

Restricted for:

General Government	\$ 46,799
Education	1,112,402
Health and Human Services	1,153
Public Safety and Corrections	3,667
Transportation	910,009
Natural Resources and Recreation	1,178,025
	<u>\$ 3,252,055</u>

Committed to:

General Government	\$ 65,843
Education	1,267
Employee Benefits	9
Public Safety and Corrections	8,315
Natural Resources and Recreation	211
Regulatory Services	672,486
	<u>\$ 748,131</u>

Assigned to:

General Government	\$ 983
Transportation	605
	<u>\$ 1,588</u>

Debt Service Funds

Nonspendable:

Prepaid Items	\$ 2
	<u>\$ 2</u>

Restricted for:

Debt Service	\$ 1,554,994
	<u>\$ 1,554,994</u>

NONMAJOR FUNDS (concluded)

Capital Projects Funds

Nonspendable:

Inventory	\$ 190
	<u>\$ 190</u>

Restricted for:

General Government	\$ 101,771
Education	144
Health and Human Services	22,548
Public Safety and Corrections	74,453
Transportation	663,501
Natural Resources and Recreation	6,285
	<u>\$ 868,702</u>

Permanent Funds

Nonspendable:

Permanent Fund Principal	\$ 747,645
	<u>\$ 747,645</u>

Restricted for:

Natural Resources and Recreation	\$ 348
	<u>\$ 348</u>

Committed to:

General Government	\$ 1,613
Education	6,888
Health and Human Services	815
	<u>\$ 9,316</u>

ALL GOVERNMENTAL FUNDS

Nonspendable	\$12,754,737
Restricted	23,999,553
Committed	4,942,772
Assigned	30,959
Unassigned	338,699
Total Fund Balances – Governmental Funds	<u>\$42,066,720</u>

NOTE 14

Restatement of Beginning Balances

During fiscal 2011, certain accounting changes and adjustments were made that required the restatement of

fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity are included below and discussed on the following page.

Restatements to Fund Balances/Net Position			
(Amounts in Thousands)			
	September 1, 2010, As Previously Reported	Restatements	September 1, 2010, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	\$ 8,409,552	\$ 512,895	\$ 8,922,447
State Highway Fund	1,285,017		1,285,017
Permanent School Fund	24,395,316		24,395,316
Total Major Funds	<u>34,089,885</u>	<u>512,895</u>	<u>34,602,780</u>
Nonmajor Funds:			
Special Revenue Funds	5,213,175	(1,411,398)	3,801,777
Debt Service Funds	227,778	1,358,552	1,586,330
Capital Project Funds	210,471	14,671	225,142
Permanent Funds	1,028,019	(332,337)	695,682
Total Nonmajor Funds	<u>6,679,443</u>	<u>(370,512)</u>	<u>6,308,931</u>
Total Governmental Funds	<u>40,769,328</u>	<u>142,383</u>	<u>40,911,711</u>
Governmental Activities Adjustments:			
Capital Assets	72,418,557	254,418	72,672,975
Long-Term Liabilities	(19,180,947)	(447,746)	(19,628,693)
Deferred Revenue	761,551		761,551
Internal Service Fund	136,599		136,599
Total Governmental Activities Adjustments	<u>54,135,760</u>	<u>(193,328)</u>	<u>53,942,432</u>
Total Governmental Activities	<u>94,905,088</u>	<u>(50,945)</u>	<u>94,854,143</u>
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	34,873,550	(127)	34,873,423
Unemployment Trust Fund	(1,215,122)		(1,215,122)
Lottery Fund	112,064		112,064
Total Major Funds	<u>33,770,492</u>	<u>(127)</u>	<u>33,770,365</u>
Nonmajor Enterprise Funds	<u>3,601,298</u>	<u>11,142</u>	<u>3,612,440</u>
Total Business-Type Activities	<u>37,371,790</u>	<u>11,015</u>	<u>37,382,805</u>
Total Primary Government	<u>132,276,878</u>	<u>(39,930)</u>	<u>132,236,948</u>
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds	117,037,874		117,037,874
External Investment Trust Funds	14,634,513		14,634,513
Private-Purpose Trust Funds	2,517,996	(33)	2,517,963
Total Fiduciary Funds	<u>134,190,383</u>	<u>(33)</u>	<u>134,190,350</u>
Discretely Presented Component Units	<u>\$ 924,563</u>	<u>\$ 108,514</u>	<u>\$ 1,033,077</u>
Total Reporting Entity	<u>\$ 267,391,824</u>	<u>\$ 68,551</u>	<u>\$ 267,460,375</u>

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Unit	Total
A. GASB 54 Implementation	\$ (11,246)	\$ 11,246	\$	\$	\$
B. Capital Asset Adjustments	254,418	3,089		(833)	256,674
C. Change in Methodology for Pass-through Tolls	(442,111)				(442,111)
D. Emerging Technology Fund	130,270				130,270
E. Miscellaneous Adjustments	17,724	(3,320)	(33)	109,347	123,718
Total Restatements	<u>\$ (50,945)</u>	<u>\$ 11,015</u>	<u>\$ (33)</u>	<u>\$ 108,514</u>	<u>\$ 68,551</u>

Restatements are grouped into the following five categories:

- A. These restatements result from the implementation of GASB 54. Pursuant to the fund type definitions of this GASB statement, certain funds were reclassified to different fund types in fiscal 2011, which required restatements to the fund balances or net position.
 - The court personnel training fund, textbook fund and capital renewal trust fund were reclassified from special revenue funds to general funds,
 - The Texas mobility fund was reclassified from a special revenue fund to a debt service fund, and
 - The tobacco education fund was reclassified from a permanent fund to a general fund.
- B. These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The majority of the restatements are due to a change in the methodology used to calculate capital assets related to pass-through toll agreements of the state highway fund.
- C. This restatement is due to a change in the methodology used to calculate long-term liabilities associated with pass-through toll arrangements of the state highway fund.
- D. This restatement was to correct an understatement of assets resulting from investments of the emerging technology fund being recorded as expenditures in prior years.
- E. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles and methodologies to improve consistency within the financial reporting entity. Included is a restatement of \$109.3 million to report the beginning balance of the Texas Windstorm Insurance Association, a new discretely presented component unit.

NOTE 15

Commitments and Contingencies

COMMITMENTS

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments totaling \$872.9 million as of Aug. 31, 2011.

Investment Funds

As of Aug. 31, 2011, state agencies, public employee retirement systems and institutions of higher education entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2011, the remaining commitment was \$22.5 billion.

Construction and Other Commitments

As of Aug. 31, 2011, the Texas Department of Transportation (TxDOT) had contractual commitments of approximately \$7.2 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-

through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2011, the maximum amount of future obligations for uncompleted pass-through toll agreements was \$1.7 billion. In addition, TxDOT has an equity loan agreement with North Texas Tollway Authority with a maximum amount of \$4.1 billion to be used for State Highway Project 161 in Dallas.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2011, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$293.9 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed. These claims total \$83.1 million and include a number of lawsuits and claims that may be significant to individual state agencies. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes.

Any disallowance as a result of the audits may become a liability of the state.

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 60 to 65 percent of that total.

An actual liability is realized only after (a) a completed investigation substantiates an overpayment and (b) the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, the voters of the state approved a constitutional amendment that provides for the guarantee by the permanent school fund of up to a defined capacity of \$74.4 billion in school district bonds as of Aug. 31, 2011. Approval by the state of Texas attorney general is required for each bond issuance. In the event of a default by a school district, the permanent school fund will transfer to the paying agent/registrar an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2011, \$52.7 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 791 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The \$52.7 billion represents the principal amount and does not reflect any subsequent accretions in value for compound inter-

est bonds (zero coupon securities), nor does it include interest on current interest bonds or variable rate notes. The amount also excludes bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2011, none of the school districts with guaranteed debt have defaulted on the guaranteed debt.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs's (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. The aggregate fair value of all derivative instruments with collateral provisions as of Aug. 31, 2011, was \$(38.7) million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2011.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2011, the aggregate fair value of all derivative instruments with these provisions was \$(93.3) million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of \$173.4 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2011.

NOTE 16

Subsequent Events

Bonds and Commercial Paper Issued/ Refunded/Other Financing

State agencies and institutions of higher education issued \$916.8 million in new bonds and commercial paper and \$286 million in refunding bonds since Aug. 31, 2011. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

The Texas Workforce Commission transferred \$87 million of taxes to the unemployment trust fund in September 2011 in accordance with Texas Labor Code, Section 204.123. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.061, defines a statutory floor for the unemployment trust fund as 1 percent of total

taxable wages for the four quarters ending June 30, 2011. The transfer was required because the unemployment trust fund balance was below that floor.

The Texas Transportation Commission, the governing body for the Texas Department of Transportation (TxDOT), entered into a Toll Equity Loan Agreement (TELA) with the North Texas Tollway Authority (NTTA). On Sept. 29, 2011, the Commission authorized a supplement to the TELA upon fulfillment of specified conditions. The supplement provides for an increase in the TELA commitment of up to approximately \$1.9 billion, an aggregate amount no greater than the facility costs associated with the Chisholm Trail Parkway project that are eligible to be paid from the state highway fund under applicable law. With this increase, the TELA commitment, including the supplement, for the combined project composed of State Highway 161 and Chisholm Trail Parkway is an amount not to exceed approximately \$6 billion.

On Oct. 25, 2011, the University of Texas System (UT) entered into a 2008A Basis Swap Agreement with Deutsche Bank AG with an initial notional amount of \$198.1 million. The interest rate swap agreement became effective on Nov. 1, 2011. Pursuant to the terms of the agreement, UT is obligated to make payments to Deutsche Bank based upon the notional amount specified therein at a variable rate equal to the SIFMA Municipal Swap Index. Deutsche Bank is obligated to make payments to UT based upon such notional amount at a variable rate equal to 93.4 percent of the three-month London Interbank Offered Rate. In each case, payments are due on the first calendar day of each quarter commencing Jan. 1, 2012, until July 1, 2038.

Bonds and Commercial Paper Issued/Refunded/Other Financing

(Amounts in Thousands)

	Description	Amount	Issuance Date	Purpose
Department of Housing and Community Affairs	Residential Mortgage Revenue Bonds, Series 2009 C-3	\$ 72,820	12/21/11	Provide funds for the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association ("Ginnie Mae").
	Residential Mortgage Revenue Bonds, Series 2011B, Conversion/Remarketing of the Series 2009C Bonds	148,035	09/29/11	Provide funds for the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association ("Ginnie Mae").
Texas A&M University System	Permanent University Fund Bonds, Series 2011	87,145	10/18/11	Refund Permanent University Fund Bonds, Series 1998 and Permanent University Commercial Paper.
Texas Public Finance Authority	General Obligation Commercial Paper Notes, Series 2002A and Series 2008	22,700	09/20/11	Finance equipment acquisition, repair, renovation and maintenance projects for the Texas Parks and Wildlife Department.
	General Obligation Commercial Paper Notes, Series A	3,200	09/07/11	Finance cancer research grants for the Cancer Prevention Research Institute of Texas.
Texas Southern University	Revenue Financing System Notes, Series 2011A	64,180	09/22/11	Acquire previously leased property.
Texas State Affordable Housing Corporation*	Single Family Mortgage Revenue Bonds, Series 2011B	32,000	12/15/11	Provide down payment assistance grants for teachers, firefighters, police officers, and families earning 80 percent and below of the area median income.
Texas State Technical College System	Revenue Bonds, Series 2011A	5,160	12/15/11	Fund construction and renovation projects.
	Revenue Bonds, Series 2011	26,015	09/14/11	Refund \$6.4 million of Revenue Bonds, Series 2002 and fund construction of multi-institution teaching facility.
Texas State University System	Revenue Financing System Bonds, Series 2012	27,860	02/01/12	Refund \$15.7 million in bonds and fund renovation projects.
Texas Tech University System	Revenue Financing System Bonds, Series 2012	190,825	01/05/12	Refund \$81.4 million of Bond Series 2001, Taxable Series 2001 and partial advance refunding of Series 2003, as well as fund various construction projects.
University of Texas System	Revenue Financing System Commercial Paper Notes, Series A and Revenue Financing System Taxable Commercial Paper Notes, Series B	68,822	11/01/11	Refund \$1 million in Series A notes and finance a variety of capital projects and equipment purchases at various institutions.
University of Houston System	Revenue Bonds, Series 2011A	265,500	12/29/11	Refund \$89.4 million of Bond Series 2002A, 2002B and commercial paper and to fund various construction and renovation projects.
	Revenue Bonds, Series 2011B	21,310	12/29/11	Refund \$5 million in commercial paper and fund renovation project.
Veterans' Land Board	General Obligation State of Texas Veterans Bonds, Series 2011C	74,995	12/15/11	To augment the Veterans' Housing Assistance Fund II.
Water Development Board	General Obligation Water Financial Assistance Bonds, Series 2011B	92,255	10/04/11	Assist small rural utilities in obtaining low-cost financing for water and wastewater projects.
	Total Bond Issues	<u>\$ 1,202,822</u>		

* Discretely Presented Component Unit

NOTE 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income and personnel. The state of Texas and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. There were no significant reductions in insurance coverage in the past year. In the past three years only losses from Hurricane Ike in fiscal year 2009 exceeded insurance coverage.

Property and Liability

The Texas Labor Code, Chapter 412, identifies the executive director of the State Office of Risk Management (SORM) as the state risk manager. SORM operates as a full-service risk and insurance manager for the state and oversees all surety bond and property and liability insurance purchases by state agencies.

SORM administers the statewide workers compensation program. The state does not carry commercial insurance for workers compensation, but instead, uses the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transporta-

tion (TxDOT) administer separate self-insured workers compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employee Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and

flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The following table presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ending Aug. 31, 2010, and Aug. 31, 2011. Claims and judgment amounts presented in Note 5 are also included in the table.

Changes in Claims Liability Balances				
(Amounts in Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance
2011	\$786,122	\$2,736,829	\$2,762,784	\$760,167
2010	\$737,066	\$2,806,764	\$2,757,708	\$786,122

Of the fiscal 2011 claims liability ending balance, \$208 million relates to long-term claims liabilities, which are reported in Note 5. The remaining \$552 million relates to the state's health, life and dental insurance programs, which are reported as accounts payable.

NOTE 18

Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2011, the redetermination hearings process had an estimated amount of \$1.3 billion.

NOTE 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested

parties. The component units are reported for the year ended Aug. 31, 2011, unless indicated otherwise.

Blended Component Units

The state is financially accountable for two material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component units' financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legal entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost

entirely to the state. The component units' financial data is discretely presented in the component unit column of the state's financial statements.

Texas Guaranteed Student Loan Corporation (TGSLC) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for TGSLC through board appointment and imposition of will. All members of TGSLC's board are appointed by the governor with the advice and consent of the Senate. TGSLC's liabilities are not debts of the state. TGSLC received a one-time appropriation of \$1.5 million to fund initial startup operations. TGSLC is reported for the year ended Sept. 30, 2011. Separate financial statements may be obtained by contacting TGSLC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. The state of Texas has the ability to impose its will on TRS through its budget approval powers. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2011. Separate financial statements may

be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Nonprofit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and Comptroller of Public Accounts. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

OneStar National Service Commission Inc. and **OneStar Foundation** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's boards. The governor can also remove any board member at will. The OneStar Foundation Inc. performs all administrative duties of the OneStar National Service Commission Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the year ended Dec. 31, 2010. The financial statements of OneStar can be obtained by contacting OneStar at 816 Congress, Suite 900, Austin, Texas 78701.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail

insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is reported for the year ended Dec. 31, 2010. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building E, Suite 530, Austin, Texas, 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec. 31, 2010. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the year ended Dec. 31, 2010. Financial

statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool (THIRP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. TDI approves all rates and rate schedules before they are used. The nine-member board of directors is appointed by TDI's commissioner. THIRP is reported for the year ended Dec. 31, 2010. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is fiscally dependent on the Texas Department of Agriculture (TDA) and governed by 16 board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2010. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses. TAFA primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) is a legally separate entity created by the

Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ combined financial statements. Financial statements may be obtained by contacting TCEQ at P.O. Box 13087, Austin, Texas 78711-3087.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fis-

cally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation

(TED Corp), a nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp, and has the ability to remove board members at will. The board of directors is appointed by the governor. TED Corp's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Small Business Industrial Development

Corporation (TSBIDC) was chartered to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC. The board of directors is appointed by the governor, and all programs and expenditures of TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as directors on the board, and can be removed from the board at will. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Casa Verde Research Center, Sociedad Anonimo

(Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Casa Verde is reported for the year ended Sept. 30, 2010. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the

Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2010. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

National Biosecurity Foundation (Foundation) is a legally separate nonprofit corporation established to develop national, regional and local biosecurity countermeasures against unconventional weapons, including biological, chemical and radioactive weapons, and communicable diseases applicable to both military and civilian populations. The board consists of initially three directors, originally appointed by the deputy general counsel of the Texas A&M University System (A&M). Additional directors may be elected by a majority of the existing directors of the Foundation. A&M can modify or approve the budget of the Foundation, as well as veto, overrule or modify the decisions of the Foundation's board. The Foundation is reported for the year ended Aug. 31, 2011. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, 200 Technology Way, Suite 1281, College Station, Texas 77845.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life,

accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints the Association's nine-member board of directors.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships, faculty awards and for assisting the chancellor in the performance of his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Coastal Coordination Council was established to adopt uniform policies and goals to guide decision-making by all entities regulating or managing natural resource use within the Texas coastal area. The majority of the board of directors is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

Operation Game Thief Committee was established to administer the operation game thief program, which facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources or the public safety of persons using those natural and cultural resources, and payment of rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

River Authorities are political subdivisions created by Texas statute. The Texas Constitution, Article 16, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of

its rivers and streams, for irrigation, power and all other useful purposes; the reclamation and irrigation of its arid, semiarid and other lands needing irrigation; the reclamation of drainage of its overflowed lands and other lands needing drainage; the conservation and development of its forests, water and hydro-electric power; the navigation of its inland and coastal waters; and the preservation and conservation of all such natural resources of the state. The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

NOTE 20

Deficit Fund Balances/Net Position

Proprietary Funds

The **Unemployment Trust Fund**, a major enterprise fund, reported a deficit of \$812.9 million. The fund became insolvent in 2009 due to the economic recession. To lessen the potential tax impact to Texas employers due to rules of the Federal Unemployment Tax Act and Title XII of the Social Security Tax, the Texas Workforce Commission issued revenue bonds.

Projections are that differences between the bond debt and interest on federal advances will provide significant savings to the state. However, at year-end the debt liability of the trust fund exceeded available assets.

The **Texas Prepaid Tuition Plans**, a nonmajor enterprise fund, reported a deficit of \$618.4 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four year colleges and universities grew at a higher percentage rate than the Plan's investment return.

Discretely Presented Component Units

The TAMU Casa Verde Research Center, a discrete component unit, reported a deficit of \$327 thousand created by a prior period restatement to restate land and building values to the basis required by Costa Rican tax law.

NOTE 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other

court-ordered factors. A revenue accrual of \$303 million is based on the payment received in December 2011. Tobacco settlement revenues were \$480.8 million in fiscal 2010 and \$474.7 million in fiscal 2011. Cumulative actual tobacco settlement revenues as of fiscal 2011 were \$7.1 billion.

NOTE 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$2.1 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported can be found in the donor-restricted endowments table below. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those required to be retained in perpetuity.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	\$ 2,047,484	Expendable
Term Endowments	31,123	Expendable
	<u>\$ 2,078,607</u>	

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter

163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

NOTE 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

NOTE 24

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows:

Taxes Receivable by Tax Type

August 31, 2011 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	\$ 1,407,904
Motor Vehicle and Manufactured Housing	112,818
Motor Fuels	274,042
Franchise	227,733
Oil and Natural Gas Production	490,030
Insurance Occupation	168,428
Cigarette and Tobacco	18,073
Other	153,558
Total Taxes Receivable	<u>\$ 2,852,586</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$ 2,821,330
Noncurrent Taxes Receivable	31,256
Total Taxes Receivable	<u>\$ 2,852,586</u>

Tax Refunds Payable by Tax Type

August 31, 2011 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Franchise	\$ 456,599
Oil and Natural Gas Production	205,723
Total Tax Refunds Payable	<u>\$ 662,322</u>

Texas franchise tax receivables represent balances due at Aug. 31, 2011, for business activity that occurred in calendar year 2010. The franchise tax payments were due May 15, 2011; however, taxpayers were allowed to extend the filing date to November 2011.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2011 is not due until May 2012. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

NOTE 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 months, or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and May 31, 2010, are eligible for a 65 percent subsidy of COBRA premiums for up to a 15 month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2011, the cost to the state was approximately \$28.3 million for 5,867 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits accepted in fiscal 2011.

NOTE 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The following tables present the financial statements of the homes related to the revenue bonds.

Condensed Statement of Net Position

August 31, 2011 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
ASSETS	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 3,288
Other Current Assets	5,480
Other Noncurrent Assets	4,560
Capital Assets, Net of Depreciation	23,594
Total Assets	<u>36,922</u>
LIABILITIES	
Current Liabilities	5,837
Noncurrent Liabilities	26,355
Total Liabilities	<u>32,192</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	1,374
Restricted	3,356
Total Net Position	<u>\$ 4,730</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
OPERATING REVENUES (EXPENSES)	
Sale of Goods and Services	\$38,869
Other Operating Revenues	14
Depreciation and Amortization	(1,832)
Other Operating Expenses	(36,811)
Operating Income	<u>240</u>
NONOPERATING REVENUES (EXPENSES)	
Other Nonoperating Revenues	44
Interest Expense	(1,412)
Transfer In	82
Transfer Out	(619)
Change in Net Position	<u>(1,665)</u>
Net Position, September 1, 2010	<u>6,395</u>
Net Position, August 31, 2011	<u>\$ 4,730</u>

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
NET CASH PROVIDED (USED) BY:	
Operating Activities	\$ 1,848
Noncapital Financing Activities	(538)
Capital and Related Financing Activities	(1,826)
Investing Activities	<u>66</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(450)</u>
Cash and Cash Equivalents, September 1, 2010	<u>3,738</u>
Cash and Cash Equivalents, August 31, 2011	<u>\$ 3,288</u>



Section Two
(continued)

REQUIRED
SUPPLEMENTARY
INFORMATION
OTHER THAN MD&A

STATE OF TEXAS

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 37,583,327	\$ 34,009,156	\$ 33,567,412	\$ (441,744)
Federal	26,947,676	41,781,202	40,495,498	(1,285,704)
Licenses, Fees and Permits	2,506,248	2,521,009	2,603,118	82,109
Interest and Other Investment Income	570,652	164,774	229,612	64,838
Land Income	12,685	13,172	17,897	4,725
Settlement of Claims	532,971	494,227	591,469	97,242
Sales of Goods and Services	1,035,143	2,058,198	1,294,551	(763,647)
Other	3,475,253	3,038,030	3,055,907	17,877
Total Revenues	<u>72,663,955</u>	<u>84,079,768</u>	<u>81,855,464</u>	<u>(2,224,304)</u>
EXPENDITURES				
General Government	3,942,711	2,978,310	3,577,224	(598,914)
Education	23,180,945	22,679,163	25,841,935	(3,162,772)
Employee Benefits	1,315,886	35,754	1,694	34,060
Teacher Retirement Benefits	1,943,506	1,943,506	1,854,504	89,002
Health and Human Services	30,953,388	39,360,494	43,499,933	(4,139,439)
Public Safety and Corrections	3,924,988	5,286,686	4,845,192	441,494
Transportation	120,130	130,036	22,551	107,485
Natural Resources and Recreation	1,495,546	1,796,683	1,434,306	362,377
Regulatory Services	270,168	359,205	340,139	19,066
Total Expenditures	<u>67,147,268</u>	<u>74,569,837</u>	<u>81,417,478</u>	<u>(6,847,641)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>5,516,687</u>	<u>9,509,931</u>	<u>437,986</u>	<u>(9,071,945)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,531,521	2,173,248	3,873,493	1,700,245
Transfer Out	(6,958,777)	(7,460,968)	(5,994,010)	1,466,958
Sale of Capital Assets	6,588	8,702	6,056	(2,646)
Insurance Recoveries	1,098	2,840	1,191	(1,649)
Available Beginning Balances	(8,763,115)	(2,187,264)	2,526,488	4,713,752
Total Other Financing Sources (Uses)	<u>(14,182,685)</u>	<u>(7,463,442)</u>	<u>413,218</u>	<u>7,876,660</u>
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	<u>\$ (8,665,998)</u>	<u>\$ 2,046,489</u>	<u>\$ 851,204</u>	<u>\$ (1,195,285)</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 41,032	\$ 40,356	\$ 2,313,017	\$ 2,272,661
Federal	3,151,640	3,598,762	2,974,027	(624,735)
Licenses, Fees and Permits	1,263,278	1,247,236	1,602,294	355,058
Interest and Other Investment Income	59,958	42,899	63,662	20,763
Land Income	4,451	5,582	6,679	1,097
Settlement of Claims	103	1,000	663	(337)
Sales of Goods and Services	173,571	217,745	213,491	(4,254)
Other	15,202	4,090	4,855	765
Total Revenues	<u>4,709,235</u>	<u>5,157,670</u>	<u>7,178,688</u>	<u>2,021,018</u>
EXPENDITURES				
General Government	10,937	13,015	12,641	374
Employee Benefits	90,579			
Public Safety and Corrections	468,682	593,659	598,474	(4,815)
Transportation	6,270,916	6,586,695	6,498,216	88,479
Total Expenditures	<u>6,841,114</u>	<u>7,193,369</u>	<u>7,109,331</u>	<u>84,038</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(2,131,879)</u>	<u>(2,035,699)</u>	<u>69,357</u>	<u>2,105,056</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	2,323,519	2,231,873	195,016	(2,036,857)
Transfer Out			(433,843)	(433,843)
Sale of Capital Assets	4,010	4,421	3,363	(1,058)
Insurance Recoveries	6,000	11,678	10,832	(846)
Available Beginning Balances	2,432,353	2,109,489	4,651,427	2,541,938
Total Other Financing Sources (Uses)	<u>4,765,882</u>	<u>4,357,461</u>	<u>4,426,795</u>	<u>69,334</u>
Excess of Revenue and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,634,003</u>	<u>\$ 2,321,762</u>	<u>\$ 4,496,152</u>	<u>\$ 2,174,390</u>

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis		
August 31, 2011 (Amounts in Thousands)		
	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 851,204	\$ 4,496,152
Basis of Accounting Differences:		
Receivables and Deferred Revenues	1,232,861	(232,008)
Payables	(1,342,001)	(107,735)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(2,526,488)	(4,651,427)
Other Revenues Not Budgeted	162,526	
Other Expenditures Not Budgeted	(116,885)	(40,517)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	902	2,057
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u><u>\$ (1,737,881)</u></u>	<u><u>\$ (533,478)</u></u>

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$599 million variance in general government was due to prior year American Recovery and Reinvestment Act (ARRA) funds for energy programs in that year's budget being spent mostly in this fiscal year. The \$3.2 billion variance in education was the result of prior year appropriation balances not spent in the first year of the biennium but spent in this fiscal year. The \$4.1 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates for agencies in this particular function.

Major special revenue fund - state highway fund - The \$4.8 million variance in public safety and corrections is the result of expenditures made from the available beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session

of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2011, there were no appropriations transferred to any agency for emergency use or cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component and each component are weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting

(1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMap assessments. The results of the condition assessments are presented below.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost

(Amounts in Thousands)

	2011	2010	2009	2008	2007
INTERSTATE HIGHWAYS					
Estimate	\$ 604,837	\$ 568,456	\$ 534,263	\$ 502,128	\$ 438,460
Actual	\$ 361,825	\$ 333,253	\$ 326,305	\$ 438,237	\$ 471,925
OTHER HIGHWAYS					
Estimate	\$ 3,282,946	\$ 3,005,713	\$ 2,687,869	\$ 2,455,243	\$ 1,702,612
Actual	\$ 1,517,604	\$ 1,423,734	\$ 1,519,110	\$ 1,649,317	\$ 1,881,285
CENTRAL TEXAS TURNPIKE SYSTEM					
Estimate	\$ 11,578	\$ 11,371	\$ 9,179	6,910	N/A
Actual	\$ 11,439	\$ 6,972	\$ 7,262	5,411	N/A

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT intends to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic,

legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

Schedules of Funding Progress

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – OPEB*						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/10	\$ 0	\$ 5,956,798	\$ (5,956,798)	0.0%	\$ 5,309,413	(112.2)%
12/31/09	0	5,676,868	(5,676,868)	0.0%	5,026,491	(112.9)%
12/31/08	0	5,102,765	(5,102,765)	0.0%	4,820,568	(105.9)%
A&M Care Health and Life Plan (A&M Plan)						
09/01/10	\$ 0	\$ 1,854,690	\$ (1,854,690)	0.0%	\$ 1,313,538	(141.2)%
09/01/09	0	1,864,320	(1,864,320)	0.0%	1,315,292	(141.7)%
09/01/08	0	1,258,563	(1,258,563)	0.0%	1,260,683	(99.8)%
* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.						

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

Schedules of Funding Progress – Pension*

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System of Texas (ERS)						
08/31/11	\$ 23,997,445	\$ 28,398,213	\$ (4,400,768)	84.5%	\$ 5,795,185	(75.9)%
08/31/10	23,628,567	27,668,876	(4,040,309)	85.4%	5,930,141	(68.1)%
08/31/09	23,509,622	26,191,650	(2,682,028)	89.8%	5,814,417	(46.1)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/11	\$ 830,522	\$ 960,953	\$ (130,431)	86.4%	\$ 1,475,432	(8.8)%
08/31/10	802,897	930,747	(127,850)	86.3%	1,507,950	(8.5)%
08/31/09	780,808	870,179	(89,371)	89.7%	1,464,483	(6.1)%
Judicial Retirement System Plan One (JRS1)						
08/31/11	\$ 0	\$ 245,777	\$ (245,777)	0.0%	\$ 2,200	(11,171.7)%
08/31/10	0	264,077	(264,077)	0.0%	2,827	(9,341.2)%
08/31/09	0	268,275	(268,275)	0.0%	2,965	(9,048.1)%
Judicial Retirement System Plan Two (JRS2)						
08/31/11	\$ 283,936	\$ 300,163	\$ (16,227)	94.6%	\$ 69,655	(23.3)%
08/31/10	264,515	281,760	(17,245)	93.9%	68,755	(25.1)%
08/31/09	248,279	255,569	(7,290)	97.1%	67,968	(10.7)%
Teacher Retirement System of Texas (TRS)						
08/31/11	\$ 115,252,828	\$ 139,315,090	\$ (24,062,262)	82.7%	\$ 36,797,011	(65.4)%
08/31/10	111,292,528	134,191,110	(22,898,582)	82.9%	36,628,844	(62.5)%
08/31/09	106,383,566	128,029,304	(21,645,738)	83.1%	35,096,890	(61.7)%

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Significant changes are summarized below and the effects of those changes are incorporated into the 2011 valuations.

Pension Plans

The following assumptions and methods were modified since the prior valuation of the TRS pension plan:

- Small reductions in the rates of retirement at most age and service combinations,
- Decrease in the post-retirement rates of mortality for both males and females,
- Reduction in the salary increase assumption in the first year of employment, and
- Modification of the method for determining the actuarial value of assets to a method that sets the actuarial value of assets as the expected actuarial value of assets plus 20 percent of the difference between the actual market value of assets and the expected actuarial value of assets.

OPEB Plans

The following assumptions and methods were modified since the prior valuation of the UT Plan:

- The assumed per capita health benefit costs and assumed expenses for retirees and dependents were updated to reflect claims and expense experience in the 12 months following the date as of which the prior valuation's assumptions were determined.
- The health benefit cost trend was updated to reflect changes in short-term expectations of the annual rate of increase of the assumed per capita health benefits costs.
- The assumption for general price inflation was updated to reflect the actuary's best expectation of increases in the general price levels over the long-term.
- General price inflation is a component of the salary increase and the health benefit cost trend assumptions, and these assumptions were correspondingly adjusted to reflect the change in the general price inflation assumption.
- Demographic assumptions for retirement rates, salary increases and inactive member mortality were updated based on an experience study.

In addition, the requirements of the federal Patient Protection and Affordable Care Act were incorporated into the valuation for the UT Plan, resulting in changes to the benefit and eligibility provisions. The effects of the addition of the "Cadillac Tax" were also incorporated into the valuation. The impact of these requirements and changes will increase the employer's annual OPEB cost and actuarial accrued liability.

Assumptions and methods were modified since the prior valuation of the A&M Plan due to a change in the actuary used to prepare the 2011 actuarial valuation report.

- The prior valuation assumed that 79 percent of employees are married but did not state what portion of those married employees are assumed to cover their spouse on the retiree plan. The new actuary assumed that the current portion of retirees is covering a spouse.
- The new actuary factored in plan changes that will be implemented for the 2011/2012 plan year.
- The new actuary revised the health care cost trend assumption by using an initial trend rate of 10 percent, compared to the previous 8 percent, and an ultimate trend rate of 5 percent, compared to the previous 6 percent. This change had little impact on the liability, as the two scales produce very similar overall results.



Section Two
(continued)

OTHER
SUPPLEMENTARY
INFORMATION

COMBINING FINANCIAL
STATEMENTS AND
SCHEDULES



Section Two
(continued)

GOVERNMENTAL FUNDS

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2011 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,116,384	\$ 1,461,170	\$ 934,254	\$ 10,563	\$ 3,522,371
Short-Term Investments	22,229	95,496		8,549	126,274
Receivables:					
Accounts	472	889	1,233		2,594
Federal	2,209				2,209
Investment Trades				2,460	2,460
Interest and Dividends	11,886	306		557	12,749
Other	558				558
Due From Other Funds	67,120		6,771	835	74,726
Inventories	382		190		572
Prepaid Items	4	2			6
Investments	12,583	8,568		738,789	759,940
Loans and Contracts	1,945,356				1,945,356
Other Assets	8,071				8,071
Restricted:					
Cash and Cash Equivalents	5,081				5,081
Loans and Contracts	749,704				749,704
Other Assets	90,263				90,263
Total Assets	<u>\$ 4,032,302</u>	<u>\$ 1,566,431</u>	<u>\$ 942,448</u>	<u>\$ 761,753</u>	<u>\$ 7,302,934</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 20,611	\$ 57	\$ 18,186	\$ 1,512	\$ 40,366
Investment Trades				2,929	2,929
Payroll	4,812		80	3	4,895
Due To Other Funds	1,096	9,436	51,938		62,470
Interfund Payable	2,965		1,858		4,823
Deferred Revenues	349	1,942			2,291
Other Liabilities	309		1,494		1,803
Total Liabilities	<u>30,142</u>	<u>11,435</u>	<u>73,556</u>	<u>4,444</u>	<u>119,577</u>
Fund Balances:					
Nonspendable	386	2	190	747,645	748,223
Restricted	3,252,055	1,554,994	868,702	348	5,676,099
Committed	748,131			9,316	757,447
Assigned	1,588				1,588
Total Fund Balances	<u>4,002,160</u>	<u>1,554,996</u>	<u>868,892</u>	<u>757,309</u>	<u>7,183,357</u>
Total Liabilities and Fund Balances	<u>\$ 4,032,302</u>	<u>\$ 1,566,431</u>	<u>\$ 942,448</u>	<u>\$ 761,753</u>	<u>\$ 7,302,934</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	\$ 2,967,367	\$	\$	\$	\$ 2,967,367
Federal	13,356	58,206			71,562
Licenses, Fees and Permits	368,354	355,809			724,163
Interest and Other Investment Income	77,875	13,983	8,569	71,940	172,367
Land Income	14			15	29
Sales of Goods and Services	2,276	32	2,879		5,187
Other	29,875		33		29,908
Total Revenues	<u>3,459,117</u>	<u>428,030</u>	<u>11,481</u>	<u>71,955</u>	<u>3,970,583</u>
EXPENDITURES					
Current:					
General Government	182,348	964	47,810	4,327	235,449
Education	1,595,389		2,980	2,962	1,601,331
Employee Benefits	12,521				12,521
Health and Human Services	1,220		1,183	484	2,887
Public Safety and Corrections	71,904		26,551		98,455
Transportation	1,167	18	26,308		27,493
Natural Resources and Recreation	65,072		14,346		79,418
Regulatory Services	72,542				72,542
Capital Outlay	8,218		460,042		468,260
Debt Service:					
Principal		554,330			554,330
Interest	72,776	661,534	19		734,329
Other Financing Fees	1,283	3,860	4,930		10,073
Total Expenditures	<u>2,084,440</u>	<u>1,220,706</u>	<u>584,169</u>	<u>7,773</u>	<u>3,897,088</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,374,677</u>	<u>(792,676)</u>	<u>(572,688)</u>	<u>64,182</u>	<u>73,495</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,189,751	877,328	2,855		2,069,934
Transfer Out	(2,668,397)	(141,729)	(10,488)	(2,555)	(2,823,169)
Bonds and Notes Issued	298,157	11,915	1,193,200		1,503,272
Bonds Issued for Refunding		546,565			546,565
Premiums on Bonds Issued	6,345	47,420	30,871		84,636
Payment to Escrow for Refunding	(150)	(580,157)			(580,307)
Total Other Financing Sources (Uses)	<u>(1,174,294)</u>	<u>761,342</u>	<u>1,216,438</u>	<u>(2,555)</u>	<u>800,931</u>
Net Change in Fund Balances	<u>200,383</u>	<u>(31,334)</u>	<u>643,750</u>	<u>61,627</u>	<u>874,426</u>
Fund Balances, September 1, 2010	5,213,175	227,778	210,471	1,028,019	6,679,443
Restatements	(1,411,398)	1,358,552	14,671	(332,337)	(370,512)
Fund Balances, September 1, 2010, as Restated	<u>3,801,777</u>	<u>1,586,330</u>	<u>225,142</u>	<u>695,682</u>	<u>6,308,931</u>
Fund Balances, August 31, 2011	<u>\$ 4,002,160</u>	<u>\$ 1,554,996</u>	<u>\$ 868,892</u>	<u>\$ 757,309</u>	<u>\$ 7,183,357</u>

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increases and calculated amounts from franchise taxes. The intent of the fund is to reduce school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to

various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2011 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund*	Other Nonmajor Special Revenue Funds**	Totals
ASSETS								
Cash and Cash Equivalents	\$	\$ 527	\$ 103,022	\$ 683,123	\$ 10,857	\$	\$ 318,855	\$ 1,116,384
Short-Term Investments			22,220				9	22,229
Receivables:								
Accounts			191				281	472
Federal							2,209	2,209
Interest and Dividends	42		2,948		39		8,857	11,886
Other							558	558
Due From Other Funds		571			63,436		3,113	67,120
Inventories							382	382
Prepaid Items							4	4
Investments							12,583	12,583
Loans and Contracts		910,009	1,027,521				7,826	1,945,356
Other Assets		3					8,068	8,071
Restricted:								
Cash and Cash Equivalents							5,081	5,081
Loans and Contracts							749,704	749,704
Other Assets							90,263	90,263
Total Assets	<u>\$ 42</u>	<u>\$ 911,110</u>	<u>\$ 1,155,902</u>	<u>\$ 683,123</u>	<u>\$ 74,332</u>	<u>\$ 0</u>	<u>\$ 1,207,793</u>	<u>\$ 4,032,302</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	\$	\$ 496	\$ 1,039	\$ 15,620	\$	\$	\$ 3,456	\$ 20,611
Payroll							4,812	4,812
Due To Other Funds			699				397	1,096
Interfund Payable			2,965					2,965
Deferred Revenues							349	349
Other Liabilities							309	309
Total Liabilities	<u>0</u>	<u>496</u>	<u>4,703</u>	<u>15,620</u>	<u>0</u>	<u>0</u>	<u>9,323</u>	<u>30,142</u>
Fund Balances:								
Nonspendable							386	386
Restricted		910,009	1,151,013		74,332		1,116,701	3,252,055
Committed	42		186	667,503			80,400	748,131
Assigned		605					983	1,588
Total Fund Balances	<u>42</u>	<u>910,614</u>	<u>1,151,199</u>	<u>667,503</u>	<u>74,332</u>	<u>0</u>	<u>1,198,470</u>	<u>4,002,160</u>
Total Liabilities and Fund Balances	<u>\$ 42</u>	<u>\$ 911,110</u>	<u>\$ 1,155,902</u>	<u>\$ 683,123</u>	<u>\$ 74,332</u>	<u>\$ 0</u>	<u>\$ 1,207,793</u>	<u>\$ 4,032,302</u>

* This fund has activity on the combining statement of revenues, expenditures and changes in fund balance – nonmajor special revenue funds. The Texas mobility fund is now reported as a discretely presented debt service fund.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund*	Other Nonmajor Special Revenue Funds**	Totals
REVENUES								
Taxes	\$ 2,207,605	\$	\$	\$	\$ 759,762	\$	\$	\$ 2,967,367
Federal			4,921				8,435	13,356
Licenses, Fees and Permits				147,571			220,783	368,354
Interest and Other Investment Income	872		19,846	5,535	1,234		50,388	77,875
Land Income							14	14
Sales of Goods and Services			229				2,047	2,276
Other		976	2,978				25,921	29,875
Total Revenues	<u>2,208,477</u>	<u>976</u>	<u>27,974</u>	<u>153,106</u>	<u>760,996</u>	<u>0</u>	<u>307,588</u>	<u>3,459,117</u>
EXPENDITURES								
Current:								
General Government							182,348	182,348
Education					1,578,262		17,127	1,595,389
Employee Benefits							12,521	12,521
Health and Human Services							1,220	1,220
Public Safety and Corrections							71,904	71,904
Transportation		1,167						1,167
Natural Resources and Recreation			56,109				8,963	65,072
Regulatory Services				71,272			1,270	72,542
Capital Outlay			22				8,196	8,218
Debt Service:								
Interest		72,604	172					72,776
Other Financing Fees							1,283	1,283
Total Expenditures	<u>0</u>	<u>73,771</u>	<u>56,303</u>	<u>71,272</u>	<u>1,578,262</u>	<u>0</u>	<u>304,832</u>	<u>2,084,440</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>2,208,477</u>	<u>(72,795)</u>	<u>(28,329)</u>	<u>81,834</u>	<u>(817,266)</u>	<u>0</u>	<u>2,756</u>	<u>1,374,677</u>
OTHER FINANCING SOURCES (USES)								
Transfer In			3,201		1,092,809		93,741	1,189,751
Transfer Out	(2,208,566)		(38,007)		(276,788)		(145,036)	(2,668,397)
Bonds and Notes Issued			179,507				118,650	298,157
Premiums on Bonds Issued							6,345	6,345
Payment to Escrow for Refunding							(150)	(150)
Total Other Financing Sources (Uses)	<u>(2,208,566)</u>	<u>0</u>	<u>144,701</u>	<u>0</u>	<u>816,021</u>	<u>0</u>	<u>73,550</u>	<u>(1,174,294)</u>
Net Change in Fund Balances	<u>(89)</u>	<u>(72,795)</u>	<u>116,372</u>	<u>81,834</u>	<u>(1,245)</u>	<u>0</u>	<u>76,306</u>	<u>200,383</u>
Fund Balances, September 1, 2010	131	983,409	1,034,827	585,669	75,577	1,358,552	1,175,010	5,213,175
Restatements						(1,358,552)	(52,846)	(1,411,398)
Fund Balances, September 1, 2010, as Restated	<u>131</u>	<u>983,409</u>	<u>1,034,827</u>	<u>585,669</u>	<u>75,577</u>	<u>0</u>	<u>1,122,164</u>	<u>3,801,777</u>
Fund Balances, August 31, 2011	<u>\$ 42</u>	<u>\$910,614</u>	<u>\$1,151,199</u>	<u>\$667,503</u>	<u>\$ 74,332</u>	<u>\$ 0</u>	<u>\$1,198,470</u>	<u>\$ 4,002,160</u>

* This fund is now reported as a discretely presented debt service fund.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule

Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Property Tax Relief Fund				Water Development Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	\$ 2,702,508	\$ 2,216,013	\$ 2,207,605	\$ (8,408)	\$	\$	\$	\$
Federal					20	14,957	4,926	(10,031)
Licenses, Fees and Permits								
Interest and Other Investment Income	55,411	6,823	961	(5,862)	20,449	21,116	19,233	(1,883)
Sales of Goods and Services					250	300	264	(36)
Other						3,000	2,871	(129)
Total Revenues	<u>2,757,919</u>	<u>2,222,836</u>	<u>2,208,566</u>	<u>(14,270)</u>	<u>20,719</u>	<u>39,373</u>	<u>27,294</u>	<u>(12,079)</u>
EXPENDITURES								
General Government								
Education	2,797,800	2,797,800		2,797,800				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Natural Resources and Recreation					6,323	13,067	51,473	(38,406)
Regulatory Services								
Total Expenditures	<u>2,797,800</u>	<u>2,797,800</u>	<u>0</u>	<u>2,797,800</u>	<u>6,323</u>	<u>13,067</u>	<u>51,473</u>	<u>(38,406)</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>(39,881)</u>	<u>(574,964)</u>	<u>2,208,566</u>	<u>2,783,530</u>	<u>14,396</u>	<u>26,306</u>	<u>(24,179)</u>	<u>(50,485)</u>
OTHER FINANCING SOURCES (USES)								
Transfer In							3,201	3,201
Transfer Out			(2,208,566)	(2,208,566)			(25,492)	(25,492)
Available Beginning Balances	<u>2,999,978</u>	<u>2,857,375</u>		<u>(2,857,375)</u>	<u>199,921</u>	<u>197,650</u>	<u>177,444</u>	<u>(20,206)</u>
Total Other Financing Sources (Uses)	<u>2,999,978</u>	<u>2,857,375</u>	<u>(2,208,566)</u>	<u>(5,065,941)</u>	<u>199,921</u>	<u>197,650</u>	<u>155,153</u>	<u>(42,497)</u>
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	<u>\$ 2,960,097</u>	<u>\$ 2,282,411</u>	<u>\$ 0</u>	<u>\$ (2,282,411)</u>	<u>\$ 214,317</u>	<u>\$ 223,956</u>	<u>\$ 130,974</u>	<u>\$ (92,982)</u>

* The activity of the Texas transportation corporations, now discretely presented, is not shown on this schedule because there is no legally adopted budget.

System Benefit Fund				Available School Fund				Other Nonmajor Special Revenue Funds*			
		Actual	Final To Actual			Actual	Final To Actual			Actual	Final To Actual
Budgetary Amounts		Budgetary		Budgetary Amounts		Budgetary		Budgetary Amounts		Budgetary	
Original	Final	Basis	Variance	Original	Final	Basis	Variance	Original	Final	Basis	Variance
\$	\$	\$	\$	\$	\$	\$ 759,762	\$ 759,762	\$	\$	\$	\$
149,922	142,921	147,571	4,650					84,778	96,992	5,664	5,664
37,085	8,309	5,535	(2,774)	2,767	1,062	1,259	197	2,380	1,001	97,066	74
								1,851	1,860	46,838	45,837
								88	30	2,125	265
187,007	151,230	153,106	1,876	2,767	1,062	761,021	759,959	89,097	99,883	374	344
										152,067	52,184
				150,087	1,582,052	1,578,263	3,789	368,583	89,256	81,978	7,278
										22,796	(22,796)
								576,102	38,147	12,411	25,736
								12,219	12,227	791	11,436
								726	726	(128)	854
								9,837	10,230	8,989	1,241
135,246	135,351	77,772	57,579								
135,246	135,351	77,772	57,579	150,087	1,582,052	1,578,263	3,789	967,467	150,586	126,837	23,749
51,761	15,879	75,334	59,455	(147,320)	(1,580,990)	(817,242)	763,748	(878,370)	(50,703)	25,230	75,933
				779,836	1,843,096	1,092,809	(750,287)			86,415	86,415
				(277,546)	(277,944)	(276,788)	1,156			(117,718)	(117,718)
603,789	603,676	607,789	4,113	226,130	275,547	11,984	(263,563)	(951,750)	(176,544)	109,615	286,159
603,789	603,676	607,789	4,113	728,420	1,840,699	828,005	(1,012,694)	(951,750)	(176,544)	78,312	254,856
\$655,550	\$619,555	\$683,123	\$63,568	\$581,100	\$ 259,709	\$ 10,763	\$ (248,946)	\$(1,830,120)	\$(227,247)	\$103,542	\$330,789

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Department of Transportation Texas Mobility Fund** receives proceeds from the sale of general obligation bonds and the revenues dictated by statute to provide for the debt service requirements of those bonds. The bond proceeds provide a method of financing for the construction, reconstruction, acquisition and expansion of state highway projects. The proceeds remain in the fund until transferred to the state highway fund.

The **Texas Public Finance Authority G.O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2011 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund*	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds**	Totals
ASSETS							
Cash and Cash Equivalents	\$ 6,414	\$ 1,291,098	\$ 59	\$ 5,103	\$ 158,479	\$ 17	\$ 1,461,170
Short-Term Investments	95,496						95,496
Receivables:							
Accounts	356	533					889
Interest and Dividends	306						306
Prepaid Items		2					2
Investments	8,568						8,568
Total Assets	<u>\$ 111,140</u>	<u>\$ 1,291,633</u>	<u>\$ 59</u>	<u>\$ 5,103</u>	<u>\$ 158,479</u>	<u>\$ 17</u>	<u>\$ 1,566,431</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	\$ 25	\$ 32	\$	\$	\$	\$	\$ 57
Due To Other Funds		9,436					9,436
Deferred Revenues		1,942					1,942
Total Liabilities	<u>25</u>	<u>11,410</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,435</u>
Fund Balances:							
Nonspendable		2					2
Restricted	111,115	1,280,221	59	5,103	158,479	17	1,554,994
Total Fund Balances	<u>111,115</u>	<u>1,280,223</u>	<u>59</u>	<u>5,103</u>	<u>158,479</u>	<u>17</u>	<u>1,554,996</u>
Total Liabilities and Fund Balances	<u>\$ 111,140</u>	<u>\$ 1,291,633</u>	<u>\$ 59</u>	<u>\$ 5,103</u>	<u>\$ 158,479</u>	<u>\$ 17</u>	<u>\$ 1,566,431</u>

* This fund was previously reported as a discretely presented special revenue fund.

** The other nonmajor debt service funds column includes the Texas Public Finance Authority revenue bond funds, which were previously discretely reported.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund*	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds**	Totals
REVENUES							
Federal	\$ 9	\$ 23,304	\$ 3,659	\$	\$ 31,234	\$	\$ 58,206
Licenses, Fees and Permits		355,809					355,809
Interest and Other Investment Income	1,559	11,248	33	47	1,070	26	13,983
Sales of Goods and Services			32				32
Total Revenues	<u>1,568</u>	<u>390,361</u>	<u>3,724</u>	<u>47</u>	<u>32,304</u>	<u>26</u>	<u>428,030</u>
EXPENDITURES							
Current:							
General Government			358	606			964
Transportation		18					18
Debt Service:							
Principal	63,185	39,645	222,385	20,930	109,210	98,975	554,330
Interest	26,860	286,925	96,121	989	178,610	72,029	661,534
Other Financing Fees		412	3,448				3,860
Total Expenditures	<u>90,045</u>	<u>327,000</u>	<u>322,312</u>	<u>22,525</u>	<u>287,820</u>	<u>171,004</u>	<u>1,220,706</u>
Excess (Deficiency) of Revenues							
Over (Under) Expenditures	<u>(88,477)</u>	<u>63,361</u>	<u>(318,588)</u>	<u>(22,478)</u>	<u>(255,516)</u>	<u>(170,978)</u>	<u>(792,676)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	94,269		295,192	22,602	297,627	167,638	877,328
Transfer Out		(141,690)				(39)	(141,729)
Bonds and Notes Issued			8,544			3,371	11,915
Bonds Issued for Refunding	33,590		512,975				546,565
Premiums on Bonds Issued	2,897		44,523				47,420
Payment to Escrow for Refunding	(37,400)		(542,610)	(147)			(580,157)
Total Other Financing Sources (Uses)	<u>93,356</u>	<u>(141,690)</u>	<u>318,624</u>	<u>22,455</u>	<u>297,627</u>	<u>170,970</u>	<u>761,342</u>
Net Change in Fund Balances	<u>4,879</u>	<u>(78,329)</u>	<u>36</u>	<u>(23)</u>	<u>42,111</u>	<u>(8)</u>	<u>(31,334)</u>
Fund Balances, September 1, 2010	106,236		23	5,126	116,368	25	227,778
Restatements		1,358,552					1,358,552
Fund Balances, September 1, 2010, as Restated	<u>106,236</u>	<u>1,358,552</u>	<u>23</u>	<u>5,126</u>	<u>116,368</u>	<u>25</u>	<u>1,586,330</u>
Fund Balances, August 31, 2011	<u>\$ 111,115</u>	<u>\$ 1,280,223</u>	<u>\$ 59</u>	<u>\$ 5,103</u>	<u>\$ 158,479</u>	<u>\$ 17</u>	<u>\$ 1,554,996</u>

* This fund was previously reported as a discretely presented special revenue fund.

** The other nonmajor debt service funds column includes the Texas Public Finance Authority revenue bond funds, which were previously discretely reported.

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and crime lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2011 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,588	\$ 9,833	\$ 35,514	\$ 32,467	\$ 7,514
Accounts Receivable			1,233		
Due From Other Funds			5,615		864
Inventories	5				
Total Assets	<u>\$ 3,593</u>	<u>\$ 9,833</u>	<u>\$ 42,362</u>	<u>\$ 32,467</u>	<u>\$ 8,378</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 259	\$ 3,243	\$ 1,623	\$ 913	\$ 378
Payroll	66				14
Due To Other Funds					
Interfund Payable		305			
Other Liabilities			1,053	441	
Total Liabilities	<u>325</u>	<u>3,548</u>	<u>2,676</u>	<u>1,354</u>	<u>392</u>
Fund Balances:					
Nonspendable	5				
Restricted	3,263	6,285	39,686	31,113	7,986
Total Fund Balances	<u>3,268</u>	<u>6,285</u>	<u>39,686</u>	<u>31,113</u>	<u>7,986</u>
Total Liabilities and Fund Balances	<u>\$ 3,593</u>	<u>\$ 9,833</u>	<u>\$ 42,362</u>	<u>\$ 32,467</u>	<u>\$ 8,378</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 25,977	\$ 35,506	\$ 722,906	\$ 30,036	\$ 30,913	\$934,254
					1,233
292					6,771
				185	190
<u>\$ 26,269</u>	<u>\$ 35,506</u>	<u>\$ 722,906</u>	<u>\$ 30,036</u>	<u>\$ 31,098</u>	<u>\$942,448</u>
\$ 2,168	\$ 152	\$ 7,467	\$ 309	\$ 1,674	\$ 18,186
		51,938			80
1,553					51,938
					1,858
					1,494
<u>3,721</u>	<u>152</u>	<u>59,405</u>	<u>309</u>	<u>1,674</u>	<u>73,556</u>
				185	190
22,548	35,354	663,501	29,727	29,239	868,702
<u>22,548</u>	<u>35,354</u>	<u>663,501</u>	<u>29,727</u>	<u>29,424</u>	<u>868,892</u>
<u>\$ 26,269</u>	<u>\$ 35,506</u>	<u>\$ 722,906</u>	<u>\$ 30,036</u>	<u>\$ 31,098</u>	<u>\$942,448</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Interest and Other Investment Income	\$ 23	\$ 233	\$ 273	\$ 246	\$ 68
Sales of Goods and Services			2,872		
Other			8		
Total Revenues	<u>23</u>	<u>233</u>	<u>3,153</u>	<u>246</u>	<u>68</u>
EXPENDITURES					
Current:					
General Government	1,826		18,901		
Education					
Health and Human Services					
Public Safety and Corrections				25,382	
Transportation					
Natural Resources and Recreation		14,346			
Capital Outlay		21,369	9,002	5,177	5,303
Debt Service:					
Interest					
Other Financing Fees					
Total Expenditures	<u>1,826</u>	<u>35,715</u>	<u>27,903</u>	<u>30,559</u>	<u>5,303</u>
Deficiency of Revenues					
Under Expenditures	<u>(1,803)</u>	<u>(35,482)</u>	<u>(24,750)</u>	<u>(30,313)</u>	<u>(5,235)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,730				889
Transfer Out	(9,247)	(274)	(87)	(821)	(15)
Bonds and Notes Issued	9,000	12,000	20,227	16,950	8,500
Premiums on Bonds Issued	773			7,910	
Total Other Financing Sources (Uses)	<u>2,256</u>	<u>11,726</u>	<u>20,140</u>	<u>24,039</u>	<u>9,374</u>
Net Change in Fund Balances	<u>453</u>	<u>(23,756)</u>	<u>(4,610)</u>	<u>(6,274)</u>	<u>4,139</u>
Fund Balances, September 1, 2010	2,815	30,041	44,296	37,387	3,847
Restatements					
Fund Balances, September 1, 2010, as Restated	<u>2,815</u>	<u>30,041</u>	<u>44,296</u>	<u>37,387</u>	<u>3,847</u>
Fund Balances, August 31, 2011	<u>\$ 3,268</u>	<u>\$ 6,285</u>	<u>\$ 39,686</u>	<u>\$ 31,113</u>	<u>\$ 7,986</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 241 7	\$ 500	\$ 6,536	\$ 265	\$ 184	\$ 8,569 2,879
				25	33
<u>248</u>	<u>500</u>	<u>6,536</u>	<u>265</u>	<u>209</u>	<u>11,481</u>
			27,083		47,810
				2,980	2,980
1,183					1,183
	810			359	26,551
		26,308			26,308
15,435	36,216	343,057	3,419	21,064	460,042
19					19
		4,930			4,930
<u>16,637</u>	<u>37,026</u>	<u>374,295</u>	<u>30,502</u>	<u>24,403</u>	<u>584,169</u>
(16,389)	(36,526)	(367,759)	(30,237)	(24,194)	(572,688)
236					2,855
				(44)	(10,488)
37,026	5,000	1,001,810	37,600	45,087	1,193,200
		22,188			30,871
<u>37,262</u>	<u>5,000</u>	<u>1,023,998</u>	<u>37,600</u>	<u>45,043</u>	<u>1,216,438</u>
20,873	(31,526)	656,239	7,363	20,849	643,750
(12,996)	66,880	7,262	22,364	8,575	210,471
14,671					14,671
<u>1,675</u>	<u>66,880</u>	<u>7,262</u>	<u>22,364</u>	<u>8,575</u>	<u>225,142</u>
<u>\$ 22,548</u>	<u>\$ 35,354</u>	<u>\$ 663,501</u>	<u>\$ 29,727</u>	<u>\$ 29,424</u>	<u>\$ 868,892</u>

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** is a permanent fund established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations or transfers under the Texas Constitution or otherwise provided by law, gifts, grants and interest. The Texas Constitution required money in the permanent higher education fund to be transferred to the national research university fund on Jan. 1, 2010. Money will be allocated to eligible universities based on an equitable formula, and may be appropriated or distributed beginning Sept. 1, 2011.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2011 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Other Nonmajor Permanent Funds	Totals
ASSETS				
Cash and Cash Equivalents	\$ 9,607	\$	\$ 956	\$ 10,563
Short-Term Investments	1,539	7,010		8,549
Receivables:				
Investment Trades	442	2,018		2,460
Interest and Dividends	104	453		557
Due From Other Funds	284		551	835
Investments	<u>137,464</u>	<u>598,177</u>	<u>3,148</u>	<u>738,789</u>
Total Assets	<u>\$ 149,440</u>	<u>\$ 607,658</u>	<u>\$ 4,655</u>	<u>\$ 761,753</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables:				
Accounts	\$ 649	\$ 312	\$ 551	\$ 1,512
Investment Trades	526	2,403		2,929
Payroll	3			3
Total Liabilities	<u>1,178</u>	<u>2,715</u>	<u>551</u>	<u>4,444</u>
Fund Balances:				
Nonspendable	138,946	604,943	3,756	747,645
Restricted			348	348
Committed	9,316			9,316
Total Fund Balances	<u>148,262</u>	<u>604,943</u>	<u>4,104</u>	<u>757,309</u>
Total Liabilities and Fund Balances	<u>\$ 149,440</u>	<u>\$ 607,658</u>	<u>\$ 4,655</u>	<u>\$ 761,753</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Other Nonmajor Permanent Funds	Totals
REVENUES				
Interest and Other Investment Income	\$ 14,052	\$ 55,310	\$ 2,578	\$ 71,940
Land Income			15	15
Total Revenues	<u>14,052</u>	<u>55,310</u>	<u>2,593</u>	<u>71,955</u>
EXPENDITURES				
Current:				
General Government	2,329	1,821	177	4,327
Education	758		2,204	2,962
Health and Human Services	484			484
Total Expenditures	<u>3,571</u>	<u>1,821</u>	<u>2,381</u>	<u>7,773</u>
Excess of Revenues Over Expenditures	<u>10,481</u>	<u>53,489</u>	<u>212</u>	<u>64,182</u>
OTHER FINANCING USES				
Transfer Out	(2,540)		(15)	(2,555)
Total Other Financing Uses	<u>(2,540)</u>	<u>0</u>	<u>(15)</u>	<u>(2,555)</u>
Net Change in Fund Balances	<u>7,941</u>	<u>53,489</u>	<u>197</u>	<u>61,627</u>
Fund Balances, September 1, 2010	473,275	551,454	3,290	1,028,019
Restatements	(332,954)		617	(332,337)
Fund Balances, September 1, 2010, as Restated	<u>140,321</u>	<u>551,454</u>	<u>3,907</u>	<u>695,682</u>
Fund Balances, August 31, 2011	<u>\$ 148,262</u>	<u>\$ 604,943</u>	<u>\$ 4,104</u>	<u>\$ 757,309</u>



Section Two
(continued)

ENTERPRISE FUNDS

Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that receive proceeds from bonds issued by the Texas Water Development Board to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** offer programs that allow Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds

August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 122,739	\$ 48,858	\$	\$
Short-Term Investments	614,553			7
Securities Lending Collateral				68,114
Restricted:				
Cash and Cash Equivalents		290,404	299,597	351,077
Short-Term Investments		688	15,040	36,413
Loans and Contracts		12,089		64,136
Receivables:				
Federal	2,897			6,950
Other Intergovernmental			2,823	
Accounts	72	1,433	4,408	16,512
Interest and Dividends	28,978	13,705	319	14,286
Investment Trades				
Other		95		
Due From Other Funds	18	128	663	376
Interfund Receivable	125	95		
Inventories		18	366	
Prepaid Items			12	
Loans and Contracts	129,796	2,849		
Other Current Assets		1,230		
Total Current Assets	<u>899,178</u>	<u>371,592</u>	<u>323,228</u>	<u>557,871</u>
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents			20	
Investments		1,232,371	114,999	307,242
Receivables				
Loans and Contracts		1,128,175		1,961,409
Other				4,862
Loans and Contracts	3,727,287	41,775		(988)
Investments				
Interfund Receivable	2,840			
Other Receivables			651	
Capital Assets:				
Non-Depreciable or Non-Amortizable			2,277,359	20,176
Depreciable or Amortizable, Net		104	355,065	49,173
Assets Held in Trust				
Deferred Charges		8,507	39,098	
Other Noncurrent Assets		405		
Total Noncurrent Assets	<u>3,730,127</u>	<u>2,411,337</u>	<u>2,787,192</u>	<u>2,341,874</u>
Total Assets	<u>4,629,305</u>	<u>2,782,929</u>	<u>3,110,420</u>	<u>2,899,745</u>
DEFERRED OUTFLOWS				
Deferred Outflow of Resources		38,673		327,836
Total Deferred Outflow of Resources	<u>0</u>	<u>38,673</u>	<u>0</u>	<u>327,836</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$ 8,356	\$ 36,687	\$ 216,640
	71,350		614,560
			139,464
	265,597		1,206,675
			52,141
			76,225
			9,847
			2,823
2,164		221	24,810
	3,446	49	60,783
	193,797		193,797
	71	2,490	2,656
27,074			28,259
		3	223
8,423		901	9,708
		245	257
	50,180	1,664	184,489
			1,230
<u>37,661</u>	<u>592,797</u>	<u>42,260</u>	<u>2,824,587</u>
		26,297	26,317
	1,332,482	53	2,987,147
	153,170		153,170
			3,089,584
			4,862
		18,090	3,787,152
			(988)
			2,840
			651
283	3	373	2,298,194
317		783	405,442
		2,783	2,783
			47,605
			405
<u>600</u>	<u>1,485,655</u>	<u>48,379</u>	<u>12,805,164</u>
<u>38,261</u>	<u>2,078,452</u>	<u>90,639</u>	<u>15,629,751</u>
			366,509
<u>0</u>	<u>0</u>	<u>0</u>	<u>366,509</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (concluded)

August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts Payroll	\$ 335	\$ 1,930	\$ 5	\$ 13,810
Investment Trades Interest	8,894	29,103	3,551	3,409
Due To Other Funds	2,785			1,140
Unearned Revenue	49,706	18,933	790	51
Obligations/Securities Lending				68,114
Employees' Compensable Leave		823		
Notes and Loans Payable				
General Obligation Bonds Payable	39,505			70,429
Revenue Bonds Payable	13,330	237,155	4,083	425
Liabilities Payable From Restricted Assets				
Other Current Liabilities		1,768		764
Total Current Liabilities	<u>114,555</u>	<u>289,712</u>	<u>8,429</u>	<u>158,142</u>
Noncurrent Liabilities:				
Employees' Compensable Leave		317		
Notes and Loans Payable			1,032,550	
General Obligation Bonds Payable	825,540			1,981,520
Revenue Bonds Payable	938,880	2,159,880	1,574,346	21,795
Liabilities Payable From Restricted Assets				
Assets Held for Others				
Hedging Derivative Liability		38,673		327,836
Other Noncurrent Liabilities		67,104		
Total Noncurrent Liabilities	<u>1,764,420</u>	<u>2,265,974</u>	<u>2,606,896</u>	<u>2,331,151</u>
Total Liabilities	<u>1,878,975</u>	<u>2,555,686</u>	<u>2,615,325</u>	<u>2,489,293</u>
NET POSITION				
Invested in Capital Assets, Net of Related Debt		104	524,979	47,129
Restricted for:				
Debt Retirement		179,534	37,246	
Veterans Land Board Housing Programs				691,159
Other				
Unrestricted	<u>2,750,330</u>	<u>86,278</u>	<u>(67,130)</u>	
Total Net Position	<u>\$ 2,750,330</u>	<u>\$ 265,916</u>	<u>\$ 495,095</u>	<u>\$ 738,288</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 4,871	\$ 484	\$ 1,123	\$ 22,558
1,401		1,777	3,178
	210,461		210,461
			44,957
793	87		4,805
	254	72	69,806
	71,350		139,464
1,012	54	632	2,521
		20,000	20,000
			109,934
			254,993
	238,589		238,589
			2,532
<u>8,077</u>	<u>521,279</u>	<u>23,604</u>	<u>1,123,798</u>
211	49	429	1,006
			1,032,550
			2,807,060
			4,694,901
	2,175,520		2,175,520
		2,783	2,783
			366,509
			67,104
<u>211</u>	<u>2,175,569</u>	<u>3,212</u>	<u>11,147,433</u>
8,288	2,696,848	26,816	12,271,231
600	3	895	573,710
			216,780
			691,159
		1,841	1,841
<u>29,373</u>	<u>(618,399)</u>	<u>61,087</u>	<u>2,241,539</u>
<u>\$ 29,973</u>	<u>\$ (618,396)</u>	<u>\$ 63,823</u>	<u>\$ 3,725,029</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	\$	\$	\$	\$
Other Sales of Goods and Services				8,115
Other Sales of Goods and Services – Pledged			68,802	28,666
Interest and Investment Income	66,622	144,804		99,083
Interest and Investment Income – Pledged	81,494			
Federal Revenue				28,848
Other Revenues	6,223	19,248	6,062	397
Total Operating Revenues	<u>154,339</u>	<u>164,052</u>	<u>74,864</u>	<u>165,109</u>
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages	8,928	9,376	1,127	
Payroll Related Costs	1,648	2,176		
Professional Fees and Services	828	4,327	10,107	60,865
Travel	73	278		25
Materials and Supplies	51	135	2,620	3,084
Communication and Utilities	114	132	1,144	
Repairs and Maintenance	40	222	15,864	881
Rentals and Leases	100	97		
Printing and Reproduction	1	89	4	5
Depreciation and Amortization		685	17,227	3,713
Bad Debt Expense		950		
Interest Expense	133,328	103,484		68,611
Employee/Participant Benefit Payments				
Other Expenses	1,106	3,643	21,357	11,548
Total Operating Expenses	<u>146,217</u>	<u>125,594</u>	<u>69,450</u>	<u>148,732</u>
Operating Income (Loss)	<u>8,122</u>	<u>38,458</u>	<u>5,414</u>	<u>16,377</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 95,481	\$ 63,007	\$ 9,528	\$ 95,481
			80,650
			97,468
		537	311,046
			81,494
			28,848
253	1,550	21,554	55,287
<u>95,734</u>	<u>64,557</u>	<u>31,619</u>	<u>750,274</u>
66,802		1,715	68,517
13,077	917	10,552	43,977
4,347	220	2,521	10,912
	3,643	3,697	83,467
35	17	144	572
1,047	100	796	7,833
1	46	558	1,995
167	294	606	18,074
701	26	1,331	2,255
9	25	64	197
44	3	687	22,359
3			953
			305,423
	218,213		218,213
27	10,974	2,079	50,734
<u>86,260</u>	<u>234,478</u>	<u>24,750</u>	<u>835,481</u>
<u>9,474</u>	<u>(169,921)</u>	<u>6,869</u>	<u>(85,207)</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	\$ 259,435	\$	\$	\$ 7,899
Gifts				18
Land Income			13	
Interest and Investment Income		5,944	6,876	18,331
Investing Activities Expense				
Interest Expense			(140,402)	(1,412)
Borrower Rebates and Agent Fees				(48)
Settlement of Claims				
Claims and Judgments				(10)
Other Expenses	(126,710)		(27)	(9)
Total Nonoperating Revenues (Expenses)	<u>132,725</u>	<u>5,944</u>	<u>(133,540)</u>	<u>24,769</u>
Income (Loss) Before Capital Contributions and Transfers	<u>140,847</u>	<u>44,402</u>	<u>(128,126)</u>	<u>41,146</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other			30	
Transfer In	3,868	6,720	46,057	367
Transfer Out	(11,189)			(23,494)
Total Capital Contributions and Transfers	<u>(7,321)</u>	<u>6,720</u>	<u>46,087</u>	<u>(23,127)</u>
Change in Net Position	<u>133,526</u>	<u>51,122</u>	<u>(82,039)</u>	<u>18,019</u>
Net Position, September 1, 2010	2,616,804	214,794	577,219	720,269
Restatements			(85)	
Net Position, September 1, 2010, as Restated	<u>2,616,804</u>	<u>214,794</u>	<u>577,134</u>	<u>720,269</u>
Net Position, August 31, 2011	<u>\$2,750,330</u>	<u>\$ 265,916</u>	<u>\$ 495,095</u>	<u>\$ 738,288</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$	\$ 1 30	\$ 267,335 48
	139,678	153	13 170,982
	(735)		(735)
		(62)	(141,876)
	(70)		(118)
1			1 (10)
			(126,746)
<u>1</u>	<u>138,873</u>	<u>122</u>	<u>168,894</u>
9,475	(31,048)	6,991	83,687
13,611		1,349	30 71,972
(8,056)		(361)	(43,100)
<u>5,555</u>	<u>0</u>	<u>988</u>	<u>28,902</u>
15,030	(31,048)	7,979	112,589
14,962	(587,348)	44,598	3,601,298
(19)		11,246	11,142
<u>14,943</u>	<u>(587,348)</u>	<u>55,844</u>	<u>3,612,440</u>
<u>\$ 29,973</u>	<u>\$ (618,396)</u>	<u>\$ 63,823</u>	<u>\$ 3,725,029</u>

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$	\$	\$ 76,520	\$ 21,360
Proceeds from Gifts				18
Proceeds from Loan Programs		129,579		566,721
Proceeds from Other Revenues		14,795		44,766
Payments to Suppliers for Goods and Services	(1,980)	(9,114)	(51,607)	(74,858)
Payments to Employees	(10,660)	(11,406)	(1,127)	
Payments for Loans Provided		(16,642)		(473,984)
Payments for Other Expenses	(107)			(21)
Net Cash Provided (Used) by Operating Activities	<u>(12,747)</u>	<u>107,212</u>	<u>23,786</u>	<u>84,002</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	144,827	60,964		216,465
Proceeds from State Appropriations	3,837			
Proceeds from Gifts				
Proceeds from Transfers from Other Funds	30	6,720	46,057	151,217
Proceeds from Grant Receipts	258,982			
Proceeds from Interfund Payables		49		
Proceeds from Other Financing Activities				
Payments of Principal on Debt Issuance	(407,655)	(319,026)		(160,689)
Payments of Interest	(137,278)	(106,653)		(70,374)
Payments of Other Costs on Debt Issuance	(2)	(1,607)		
Payments for Transfers to Other Funds	(144,888)			(173,467)
Payments for Grant Disbursements	(137,313)			
Payments for Interfund Receivables	(10,937)			
Payments for Other Uses			(20,046)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(430,397)</u>	<u>(359,553)</u>	<u>26,011</u>	<u>(36,848)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets				
Proceeds from Federal Grants and Contracts				7,883
Proceeds from Other Financing Activities			13	
Proceeds from Capital Contributions			201	
Proceeds from Interfund Payables				
Payments for Additions to Capital Assets		(63)	(67)	(13,098)
Payments of Principal on Debt Issuance				(400)
Payments for Capital Leases				
Payments of Interest on Debt Issuance			(74,708)	(1,414)
Payments of Other Costs on Debt Issuance			(883)	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>0</u>	<u>(63)</u>	<u>(75,444)</u>	<u>(7,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	782,336	314,559	119,996	106,955
Proceeds from Interest and Investment Income	150,832	65,209	6,848	8,062
Proceeds from Principal Payments on Loans	639,284			
Payments for Nonprogram Loans Provided	(593,668)			
Payments to Acquire Investments	(615,067)	(284,938)	(119,996)	(174,709)
Net Cash Provided (Used) by Investing Activities	<u>363,717</u>	<u>94,830</u>	<u>6,848</u>	<u>(59,692)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(79,427)</u>	<u>(157,574)</u>	<u>(18,799)</u>	<u>(19,567)</u>
Cash and Cash Equivalents, September 1, 2010	202,166	496,836	318,416	370,644
Restatements				
Cash and Cash Equivalents, September 1, 2010, as Restated	<u>202,166</u>	<u>496,836</u>	<u>318,416</u>	<u>370,644</u>
Cash and Cash Equivalents, August 31, 2011	<u>\$ 122,739</u>	<u>\$ 339,262</u>	<u>\$ 299,617</u>	<u>\$ 351,077</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 94,891	\$ 89,328	\$ 9,611	\$ 291,710
			18
		2,193	698,493
253	859	21,339	82,012
(67,240)	(4,881)	(1,716)	(211,396)
(17,424)	(1,171)	(13,543)	(55,331)
		(5,250)	(495,876)
(1,989)	(151,104)	(9,191)	(162,412)
8,491	(66,969)	3,443	147,218
		8,500	430,756
			3,837
		30	30
4,466		984	209,474
		1	258,983
			49
		5	5
			(887,370)
		(58)	(314,363)
		(9)	(1,618)
(12,981)		(11)	(331,347)
			(137,313)
			(10,937)
			(20,046)
(8,515)	0	9,442	(799,860)
8			8
			7,883
			13
			201
		11	11
		(164)	(13,392)
			(400)
		(68)	(68)
			(76,122)
			(883)
8	0	(221)	(82,749)
21,401	4,576,816		5,922,063
52	31,925	138	263,066
			639,284
			(593,668)
(21,437)	(4,506,185)		(5,722,332)
16	102,556	138	508,413
0	35,587	12,802	(226,978)
	238,366	38,983	1,665,411
		11,199	11,199
0	238,366	50,182	1,676,610
\$ 0	\$ 273,953	\$ 62,984	\$ 1,449,632

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 8,122	\$ 38,458	\$ 5,414	\$ 16,377
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		685	17,227	3,713
Bad Debt Expense		950		
Operating Income (Loss) and Cash Flow Categories Classification Differences	(24,343)	8,165		68,609
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables		1,144	1,523	(15,139)
(Increase) Decrease in Due From Other Funds				
(Increase) Decrease in Inventories			(378)	
(Increase) Decrease in Loans and Contracts		90,682		10,087
(Increase) Decrease in Other Assets		524		(1,721)
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	(400)	(2,083)		2,224
Increase (Decrease) in Due To Other Funds	3,874			
Increase (Decrease) in Unearned Revenue		(581)		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Benefits Payable				
Increase (Decrease) in Other Liabilities		(30,732)		(148)
Total Adjustments	<u>(20,869)</u>	<u>68,754</u>	<u>18,372</u>	<u>67,625</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,747)</u>	<u>\$ 107,212</u>	<u>\$ 23,786</u>	<u>\$ 84,002</u>
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	\$ 338	\$ 33,223	\$ 41	\$ 10,405
Other	\$	\$	\$	\$ (755)

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 9,474	\$ (169,921)	\$ 6,869	\$ (85,207)
44	3	687	22,359
3			953
		11	52,442
(590)	24,004	(149)	10,793
		(14)	(14)
(821)		53	(1,146)
		(3,587)	97,182
			(1,197)
		(5)	(5)
381	(711)	(503)	(1,092)
	(52)	11	3,833
	(47)	21	(607)
	(23)	49	26
	79,879		79,879
	(101)		(30,981)
(983)	102,952	(3,426)	232,425
\$ 8,491	\$ (66,969)	\$ 3,443	\$ 147,218
\$	\$ 109,917	\$	\$ 153,924
\$	\$	\$	\$ (755)

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities:

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Position

Colleges and Universities – Major Enterprise Fund

August 31, 2011 (Amounts in Thousands)

	University of Texas System*	Texas A&M University System*	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 1,963,128	\$ 613,926	\$ 362,161	\$ 218,707	\$ 383,082
Short-Term Investments		(33)		149,170	805
Securities Lending Collateral	384,553				
Restricted:					
Cash and Cash Equivalents	213,140	247,868	52,285	(11,616)	206,727
Short-Term Investments					
Loans and Contracts					
Receivables:					
Federal	432,144	123,747	112,791	87,409	13,095
Other Intergovernmental	46,151	5,120			
Accounts	915,199	86,581	47,679	11,515	96,315
Interest and Dividends	53,180	6,892	575	530	612
Gifts	103,254	29,896	22,873	17,974	4,812
Investment Trades	301,212	19,475			
Other	242,799	57,485	2,509	1,402	70
Due From Other Funds	247,081	94,267	88,129	91,805	96,667
Due From Component Units		18	37		
Interfund Receivable		115,215			
Inventories	79,768	24,165	3,493	2,080	4,458
Prepaid Items			33,696	46,470	10,657
Loans and Contracts	47,473	25,843	1,273	7,502	7,716
Other Current Assets	186,644	68,917	451		43,609
Total Current Assets	<u>5,215,726</u>	<u>1,519,382</u>	<u>727,952</u>	<u>622,948</u>	<u>868,625</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	21		50,247	116,565	18,434
Short-Term Investments					
Investments	22,993,693	722,193	434,741		127,050
Receivables				3,481	2,723
Loans and Contracts	76,104	4,436		15,156	1,006
Other					
Loans and Contracts		21,344	4,231		1
Investments	2,868,814	1,649,215	719,842	611,561	78,973
Interfund Receivable		529,210			
Gifts Receivable	122,003	74,594	38,451		
Capital Assets:					
Non-Depreciable or Non-Amortizable	1,979,254	1,006,469	236,088	285,959	216,490
Depreciable or Amortizable, Net	9,806,182	2,470,092	1,121,008	678,055	956,631
Assets Held in Trust		362			
Deferred Charges					
Other Noncurrent Assets	312,929	1,270			
Total Noncurrent Assets	<u>38,159,000</u>	<u>6,479,185</u>	<u>2,604,608</u>	<u>1,710,777</u>	<u>1,401,308</u>
Total Assets	<u>43,374,726</u>	<u>7,998,567</u>	<u>3,332,560</u>	<u>2,333,725</u>	<u>2,269,933</u>
DEFERRED OUTFLOWS					
Deferred Outflow of Resources	202,247	6,984			
Total Deferred Outflow of Resources	<u>202,247</u>	<u>6,984</u>	<u>0</u>	<u>0</u>	<u>0</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 347,461	\$ 10,611 54,179	\$ 46,047 15,050	\$ 31,958	\$ 8,141 19,981	\$ 25,670 8,571	\$ 4,010,892 247,723 384,553
39,233	1,733 32,057	21,517	34,732 7,771	(2,453) 12	13,360 3,925	816,526 43,753 12
28,059 936	9,758	13,164 346	20,158 15	233	10,540	851,098 52,568
55,345 803	11,558 704	11,816 156	17,109	5,384 43	10,972 27	1,269,473 63,522
719	3,550		1,390	435		184,903 320,687
	3,555		139	1,336		309,295
87,117	25,594	8,600	7,055	1,067	12,445	759,827 55
						115,215
2,002	776	521	195	258	3,104	120,820
	1,024	19,886				111,733
7,795	5,321	2,199				105,122
20,147			18,319	7,766	1	345,854
<u>589,617</u>	<u>160,420</u>	<u>139,302</u>	<u>138,841</u>	<u>42,203</u>	<u>88,615</u>	<u>10,113,631</u>
					131	185,398
				4,256	511	4,767
64,659	103,951	9,768	35,416	3,900	1,100	24,496,471 6,204
		4,662		78		101,442
					1	1
6,210		1,604	2,304			35,694
53,823		32,594		20,617	10	6,035,449
						529,210
1,833						236,881
103,090	15,163	16,518	21,505	12,228	21,775	3,914,539
706,790	225,030	223,298	158,193	124,450	101,442	16,571,171 362
			1,065	1,210		2,275
304						314,503
<u>936,709</u>	<u>344,144</u>	<u>288,444</u>	<u>218,483</u>	<u>166,739</u>	<u>124,970</u>	<u>52,434,367</u>
<u>1,526,326</u>	<u>504,564</u>	<u>427,746</u>	<u>357,324</u>	<u>208,942</u>	<u>213,585</u>	<u>62,547,998</u>
						209,231
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>209,231</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position**Colleges and Universities – Major Enterprise Fund (concluded)**

August 31, 2011 (Amounts in Thousands)

	University of Texas System*	Texas A&M University System*	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	\$ 957,813	\$ 317,142	\$ 43,115	\$ 34,467	\$ 63,540
Payroll	403,708	115,428	59,274	39,408	30,692
Other Intergovernmental	44				16,042
Federal	41,481			51	
Investment Trades	101,529	29,043			
Interest					
Due To Other Funds	16,814	1,505	2,161	275	1,755
Interfund Payable	116,231	884			
Unearned Revenue	1,149,501	452,055	178,285	181,833	267,921
Obligations/Securities Lending	384,553				
Claims and Judgments	11,548	2,105	1,594	308	154
Capital Lease Obligations	958	361	137	366	21
Employees' Compensable Leave	300,783	7,596	5,031	11,471	9,112
Notes and Loans Payable	634,747	101,568	85,357	42,141	
General Obligation Bonds Payable					
Revenue Bonds Payable	1,574,446	103,324	23,648	28,524	37,913
Pollution Remediation Obligation	20				
Funds Held for Others	33,851	35,043	29,727	9,506	4,026
Hedging Derivative Liability		4,740			
Other Current Liabilities	193,048	45,407	4,315	3,451	4,542
Total Current Liabilities	<u>5,921,075</u>	<u>1,216,201</u>	<u>432,644</u>	<u>351,801</u>	<u>435,718</u>
Noncurrent Liabilities:					
Interfund Payable	534,471	2,372			
Claims and Judgments	22,340	5,244	16,114	13	
Capital Lease Obligations	2,221	2,062	136	7,007	23
Employees' Compensable Leave	152,430	93,616	35,976	12,461	10,100
Notes and Loans Payable	23,833	9,923			
General Obligation Bonds Payable					
Revenue Bonds Payable	5,281,811	2,114,248	426,517	646,447	757,143
Assets Held for Others	749,471	68,723			
Net OPEB Obligation	1,766,652	476,809			
Hedging Derivative Liability	202,247	2,244			
Other Noncurrent Liabilities	185,803	36,182	556		1,659
Total Noncurrent Liabilities	<u>8,921,279</u>	<u>2,811,423</u>	<u>479,299</u>	<u>665,928</u>	<u>768,925</u>
Total Liabilities	<u>14,842,354</u>	<u>4,027,624</u>	<u>911,943</u>	<u>1,017,729</u>	<u>1,204,643</u>
NET POSITION					
Invested in Capital Assets,					
Net of Related Debt	5,029,154	1,287,276	842,500	406,009	375,611
Restricted for:					
Education	1,724,298	278,840	232,851	121,092	72,158
Debt Retirement	6,826		22,264	17,363	1,943
Capital Projects	68,537	62,947	30,053	5,733	159,888
Funds Held as Permanent Investments:					
Nonexpendable	11,413,570	394,215	607,566	330,673	108,884
Expendable	6,123,528	133,743	44,291	70,108	10,393
Unrestricted	<u>4,368,706</u>	<u>1,820,906</u>	<u>641,092</u>	<u>365,018</u>	<u>336,413</u>
Total Net Position	<u>\$28,734,619</u>	<u>\$3,977,927</u>	<u>\$2,420,617</u>	<u>\$1,315,996</u>	<u>\$1,065,290</u>

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 59,750	\$ 2,582	\$ 5,713	\$ 4,688	\$ 4,211	\$ 6,364	\$ 1,499,385
37,932	5,023	8,286	6,886	3,460	6,400	716,497
	1,905	360	3			18,354
	1,678				122	43,332
						130,572
		2,928	2,170		170	5,268
21	946	803	31			24,311
						117,115
155,694	43,316	59,705	51,832	22,362	17,924	2,580,428
						384,553
						15,709
7	212	76			627	2,765
2,380	2,136	412	2,472	167	662	342,222
20,903			360			885,076
		930	4,770	1,350	1,630	8,680
18,919	4,134	8,190	7,480	3,597	1,786	1,811,961
						20
11,947		16,526		81	1,570	142,277
						4,740
6,325	1,136	5,819	16,886	77	975	281,981
<u>313,878</u>	<u>63,068</u>	<u>109,748</u>	<u>97,578</u>	<u>35,305</u>	<u>38,230</u>	<u>9,015,246</u>
		12,089			3,404	552,336
			810			44,521
10	1,391	223			4,646	17,719
18,575	1,353	3,250	2,352	1,266	5,067	336,446
33,977			360			68,093
		7,500	14,322	2,860	5,295	29,977
402,137	83,022	161,290	101,881	80,413	38,964	10,093,873
2,491	79					820,764
						2,243,461
						204,491
1,779	(79)		66	199	1	226,166
<u>458,969</u>	<u>85,766</u>	<u>184,352</u>	<u>119,791</u>	<u>84,738</u>	<u>57,377</u>	<u>14,637,847</u>
<u>772,847</u>	<u>148,834</u>	<u>294,100</u>	<u>217,369</u>	<u>120,043</u>	<u>95,607</u>	<u>23,653,093</u>
334,393	151,626	57,781	50,524	53,679	79,793	8,668,346
49,522	86,519	14,074	738		1,394	2,581,486
220			2,213		7	50,836
48,652		7,381	9,827	1,212	287	394,517
44,662	9,949	6,868	33,261	3,900	642	12,954,190
2,673		2,623		3,950		6,391,309
<u>273,357</u>	<u>107,636</u>	<u>44,919</u>	<u>43,392</u>	<u>26,158</u>	<u>35,855</u>	<u>8,063,452</u>
<u>\$ 753,479</u>	<u>\$ 355,730</u>	<u>\$ 133,646</u>	<u>\$ 139,955</u>	<u>\$ 88,899</u>	<u>\$ 117,978</u>	<u>\$ 39,104,136</u>

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position

Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	University of Texas System*	Texas A&M University System*	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$	\$ 24,566	\$ 7,294	\$	\$
Tuition Revenue – Pledged	1,735,797	899,181	376,249	495,913	497,040
Discounts and Allowances	(445,152)	(233,855)	(72,866)	(107,368)	(115,706)
Hospital Revenue – Pledged	7,982,708				
Discounts and Allowances	(4,170,616)				
Professional Fees	3,921,918	7,972	275,139		
Professional Fees – Pledged	4,500	576			
Discounts and Allowances	(2,751,250)		(36,829)		
Auxiliary Enterprises					
Auxiliary Enterprises – Pledged	421,474	264,606	112,352	67,443	101,703
Discounts and Allowances	(13,747)	(30,059)			
Other Sales of Goods and Services		15,813	3,225		
Other Sales of Goods and Services – Pledged	421,531	226,763	10,528	31,272	30,479
Discounts and Allowances	(157)	(22)			
Interest and Investment Income		1,832			
Interest and Investment Income – Pledged					
Federal Revenue	1,510,636	445,130	64,674	56,948	38,284
State Grant Revenue	557	961	9,504	9,600	6,954
Other Operating Grant Revenue	354,693	204,490	141,636	18,876	6,144
Other Operating Grant Revenue – Pledged	616,122	13,685	3,401		
Other Revenues	(634)	39,310		398	28
Other Revenues – Pledged	92,102	23,964			13,239
Total Operating Revenues	<u>9,680,482</u>	<u>1,904,913</u>	<u>894,307</u>	<u>573,082</u>	<u>578,165</u>
OPERATING EXPENSES					
Cost of Goods Sold	91,365	16,963	11,031	2,524	7,892
Salaries and Wages	6,233,562	1,521,692	704,582	508,937	448,525
Payroll Related Costs	1,402,022	329,888	120,667	88,509	71,447
Professional Fees and Services	409,181	246,310	70,643	49,179	45,236
Travel	126,992	72,102	21,509	12,466	13,644
Materials and Supplies	1,248,619	219,619	67,648	38,500	84,751
Communication and Utilities	330,415	141,723	47,665	44,989	46,703
Repairs and Maintenance	234,716	81,131	34,391	14,073	18,148
Rentals and Leases	128,349	43,911	13,229	20,865	7,103
Printing and Reproduction	25,219	12,308	5,406	4,371	4,639
Depreciation and Amortization	902,392	206,547	100,322	68,166	61,227
Bad Debt Expense	2,618	173	686		2,111
Interest Expense		48	16	1,954	14
Scholarships	446,118	193,840	60,896	102,013	122,423
Claims and Judgments	17,093	1,502	2,027	1,576	36
Net Change in Pension/OPEB Obligations	470,889	134,430			
Other Expenses	779,172	350,239	89,240	37,770	34,672
Total Operating Expenses	<u>12,848,722</u>	<u>3,572,426</u>	<u>1,349,958</u>	<u>995,892</u>	<u>968,571</u>
Operating Loss	<u>(3,168,240)</u>	<u>(1,667,513)</u>	<u>(455,651)</u>	<u>(422,810)</u>	<u>(390,406)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 8,276	\$ 787	\$ 3,721	\$	\$	\$ 6,472	\$ 51,116
287,462	82,277	81,948	82,996	40,383	34,726	4,613,972
(60,145)	(19,407)	(19,714)	(25,028)	(10,308)	(20,206)	(1,129,755)
						7,982,708
						(4,170,616)
86,070						4,291,099
						5,076
						(2,788,079)
1,050		1,558			749	3,357
48,288	24,262	35,545	8,997	8,441	13,578	1,106,689
(218)	(4,538)	(8,232)		(57)	(4,554)	(61,405)
		1,791				20,829
27,622		3,479	19	1,165	5,057	757,915
						(179)
						1,832
					119	119
49,952	2,766	6,030	44,618	2,060	7,036	2,228,134
3,328			4,246			35,150
9,747	1,535	1,314		19	3,764	742,218
			877		13	634,098
134	647	16	4,837			44,736
	702			1,518		131,525
461,566	89,031	107,456	121,562	43,221	46,754	14,500,539
735	65	9,021			4,694	144,290
385,154	82,247	86,558	89,550	37,412	68,358	10,166,577
66,061	13,533	16,028	14,732	7,150	12,956	2,142,993
32,626	1,704	1,840	9,205	3,138	1,258	870,320
9,276	1,661	1,818	2,978	1,400	990	264,836
48,644	15,381	14,579	11,149	5,189	12,465	1,766,544
16,861	6,980	12,125	6,861	3,333	7,754	665,409
19,906	4,049	4,322	5,258	1,822	2,211	420,027
7,270	1,393	1,671	2,544	549	1,275	228,159
3,638	634	587	554	96	125	57,577
38,001	11,195	14,278	12,698	9,828	7,983	1,432,637
4,244	629	83	2,176	175		12,895
		1		1	3	2,037
64,213	15,421	22,882	28,029	10,743	26,327	1,092,905
					2	22,236
						605,319
37,065	6,329	6,081	14,672		10,441	1,365,681
733,694	161,221	191,874	200,406	80,836	156,842	21,260,442
(272,128)	(72,190)	(84,418)	(78,844)	(37,615)	(110,088)	(6,759,903)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position

Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	University of Texas System*	Texas A&M University System*	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$ 337,717	\$ 209,924	\$ 47,661	\$ 116,860	\$ 115,159
Gifts	301,542	144,425	47,442	83,887	18,290
Gifts – Pledged	23,938	10,923	4,641		
Land Income		8,396			
Interest and Investment Income	3,784,661	166,500	77,584	63,919	12,115
Interest and Investment Income – Pledged	265,611	72,280	8,606		
Investing Activities Expense	(80,732)	(5,532)			(837)
Interest Expense	(262,698)	(89,154)	(21,468)	(31,833)	(35,010)
Borrower Rebates and Agent Fees		(1,020)			
Loss on Sale of Capital Assets	(41,632)	(475)	(2,171)		(426)
Settlement of Claims					
Claims and Judgments		(73)			(287)
Other Revenues		38,523	19,387	35,193	
Other Revenues – Pledged	15,289	2,369	2,633		(300)
Other Expenses	(1,098)	(34,576)		(71,037)	(594)
Total Nonoperating Revenues (Expenses)	<u>4,342,598</u>	<u>522,510</u>	<u>184,315</u>	<u>196,989</u>	<u>108,110</u>
Income (Loss) Before Capital Contributions, Endowments and Transfers	<u>1,174,358</u>	<u>(1,145,003)</u>	<u>(271,336)</u>	<u>(225,821)</u>	<u>(282,296)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions – Federal	2,112				15
Capital Contributions – Other	208,305	11,807	55,449		3,612
Contributions to Permanent and Term Endowments	102,748	5,998	428	15,855	534
Transfer In	2,427,232	1,343,579	440,406	351,655	349,265
Transfer Out	(373,288)	(14,565)	(14,695)	(8,237)	(8,319)
Total Capital Contributions, Endowments and Transfers	<u>2,367,109</u>	<u>1,346,819</u>	<u>481,588</u>	<u>359,273</u>	<u>345,107</u>
Change in Net Position	<u>3,541,467</u>	<u>201,816</u>	<u>210,252</u>	<u>133,452</u>	<u>62,811</u>
Net Position, September 1, 2010	25,194,337	3,775,266	2,210,136	1,182,743	1,002,014
Restatements	(1,185)	845	229	(199)	465
Net Position, September 1, 2010, as Restated	<u>25,193,152</u>	<u>3,776,111</u>	<u>2,210,365</u>	<u>1,182,544</u>	<u>1,002,479</u>
Net Position, August 31, 2011	<u>\$28,734,619</u>	<u>\$3,977,927</u>	<u>\$2,420,617</u>	<u>\$1,315,996</u>	<u>\$1,065,290</u>

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 48,846	\$ 20,385	\$ 22,518	\$	\$ 9,633	\$ 38,954	\$ 967,657
6,008	1,829	2,541		3,031	3	608,998
		81	667			40,250
						8,396
7,768	4,993	1,224	1,634		55	4,120,453
		1,016	3,147	985	195	351,840
		(121)	(243)			(87,465)
(9,698)	(4,108)	(6,765)	(5,815)	(3,813)	(2,367)	(472,729)
						(1,020)
(2,332)	(764)	(33)		(105)	(234)	(48,172)
	1	118			1,096	1,215
(2,004)						(2,364)
1,039	742	85			22	94,991
		81		6		20,078
(1,520)	(16)	(219)	(4,219)		(5,931)	(119,210)
<u>48,107</u>	<u>23,062</u>	<u>20,526</u>	<u>(4,829)</u>	<u>9,737</u>	<u>31,793</u>	<u>5,482,918</u>
<u>(224,021)</u>	<u>(49,128)</u>	<u>(63,892)</u>	<u>(83,673)</u>	<u>(27,878)</u>	<u>(78,295)</u>	<u>(1,276,985)</u>
						2,127
3,107		343		325	1,046	283,994
569		207	64	568		126,971
275,539	78,285	66,461	77,502	27,817	87,144	5,524,885
<u>(4,937)</u>	<u>(2,081)</u>	<u>(1,327)</u>	<u>(785)</u>	<u>(1,071)</u>	<u>(974)</u>	<u>(430,279)</u>
<u>274,278</u>	<u>76,204</u>	<u>65,684</u>	<u>76,781</u>	<u>27,639</u>	<u>87,216</u>	<u>5,507,698</u>
<u>50,257</u>	<u>27,076</u>	<u>1,792</u>	<u>(6,892)</u>	<u>(239)</u>	<u>8,921</u>	<u>4,230,713</u>
703,313	328,733	131,925	146,874	89,138	109,071	34,873,550
(91)	(79)	(71)	(27)		(14)	(127)
<u>703,222</u>	<u>328,654</u>	<u>131,854</u>	<u>146,847</u>	<u>89,138</u>	<u>109,057</u>	<u>34,873,423</u>
<u>\$753,479</u>	<u>\$355,730</u>	<u>\$133,646</u>	<u>\$139,955</u>	<u>\$88,899</u>	<u>\$117,978</u>	<u>\$39,104,136</u>

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund**

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 4,952,472	\$ 240,151	\$ 256,143	\$ 32,090	\$ 18,296
Proceeds from Tuition and Fees	1,343,479	747,686	323,910	403,512	387,498
Proceeds from Research Grants and Contracts	2,729,487	920,618	251,322	93,851	120,479
Proceeds from Loan Programs	100,192	6,293	3,703	180,020	25,585
Proceeds from Auxiliaries	391,589	236,558	111,866	69,902	102,973
Proceeds from Other Revenues	541,855	57,179		8,201	26,273
Payments to Suppliers for Goods and Services	(3,744,921)	(1,080,938)	(187,608)	(210,491)	(308,469)
Payments to Employees	(7,613,830)	(1,847,502)	(828,666)	(593,755)	(551,350)
Payments for Loans Provided	(99,010)	(5,238)	(540)	(170,641)	(24,209)
Payments for Other Expenses		(263,159)	(213,642)	(121,717)	(79,849)
Net Cash Used by Operating Activities	<u>(1,398,687)</u>	<u>(988,352)</u>	<u>(283,512)</u>	<u>(309,028)</u>	<u>(282,773)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	1,818,176	958,236	341,019	266,354	264,070
Proceeds from Gifts	351,284	113,679	53,040	84,948	19,413
Proceeds from Endowments	390,858	5,998		13,339	244
Proceeds from Transfers from Other Funds		195,499		54,502	3,505
Proceeds from Loan Programs					
Proceeds from Grant Receipts		262,406	56,003	121,255	126,476
Proceeds from Other Financing Activities	417,122	69,526	18,874	10,873	69,648
Payments of Principal on Debt Issuance					(37,415)
Payments of Interest					(32,420)
Payments of Other Costs of Debt Issuance					(65)
Payments for Transfers to Other Funds	(1,169,992)	(8,791)	(8,103)	(33,654)	(1,747)
Payments for Other Uses	(6,223)	(57,667)	(92,726)	(4,233)	(14,978)
Net Cash Provided by Noncapital Financing Activities	<u>1,801,225</u>	<u>1,538,886</u>	<u>368,107</u>	<u>513,384</u>	<u>396,731</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	2,157	965	45		
Proceeds from Debt Issuance	833,078	231,450	40,658	2,964	92,048
Proceeds from State Grants and Contracts		39,906			
Proceeds from Gifts					
Proceeds from Other Financing Activities		131		101,783	21,502
Proceeds from Interfund Loans					
Proceeds from Capital Contributions	142,557		55,358	50,929	
Payments for Additions to Capital Assets	(1,568,299)	(604,842)	(161,659)	(167,798)	(127,064)
Payments of Principal on Debt Issuance	(305,610)	(192,188)	(48,586)	(24,975)	(46,891)
Payments for Capital Leases			(105)	(397)	(223)
Payments of Interest on Debt Issuance	(262,090)	(89,079)	(22,638)	(31,929)	(15,641)
Payments of Other Costs on Debt Issuance	(1,784)	(1,004)		(113,083)	(541)
Payments for Interfund Loans		(1,115)			
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,159,991)</u>	<u>(615,776)</u>	<u>(136,927)</u>	<u>(182,506)</u>	<u>(76,810)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 119,424	\$	\$ 5,325	\$	\$	\$ 5,333	\$ 5,629,234
242,746	54,164	68,840	58,177	29,683	17,562	3,677,257
90,256	13,895	6,165	49,993	5,876	30,143	4,312,085
5,595	1,096	439		43		322,966
49,121	19,724	30,483	8,997	8,293	9,770	1,039,276
712	1,349	15	6,447	2,683		644,714
(157,314)	(31,885)	(51,701)		(15,982)	(39,895)	(5,829,204)
(447,550)	(95,780)	(102,987)	(103,913)	(44,988)	(81,454)	(12,311,775)
(6,666)	(993)					(307,297)
(83,681)	(6,329)	(20,221)	(71,699)	(10,420)	(27,617)	(898,334)
<u>(187,357)</u>	<u>(44,759)</u>	<u>(63,642)</u>	<u>(51,998)</u>	<u>(24,812)</u>	<u>(86,158)</u>	<u>(3,721,078)</u>
201,425	66,628	43,529	72,011	19,767	79,878	4,131,093
7,750	1,829	2,622	273	3,031	2	637,871
569				568		411,576
1,123						254,629
	20,370					20,370
60,040		23,146		10,259	38,955	698,540
14,736	742			6	21	601,548
						(37,415)
(18)						(32,438)
						(65)
(9,286)		(1,077)		(903)		(1,233,553)
<u>(4,984)</u>		<u>(599)</u>			<u>(5,930)</u>	<u>(187,340)</u>
271,355	89,569	67,621	72,284	32,728	112,926	5,264,816
		17				3,184
90,231		13,135	31,500	32		1,335,096
		8,426				48,332
		343			572	915
		138		3,559	1,096	128,209
					3,377	3,377
32,626				153		281,623
(216,638)	(31,462)	(34,919)	(6,930)	(4,720)	(36,299)	(2,960,630)
(47,892)	(3,970)	(9,428)	(18,387)	(4,553)	(3,907)	(706,387)
	(200)			(20)		(945)
(7,510)	(4,108)	(6,775)	(5,944)	(3,709)	(2,377)	(451,800)
(6)					(974)	(117,392)
<u>(555)</u>						<u>(1,670)</u>
<u>(149,744)</u>	<u>(39,740)</u>	<u>(29,063)</u>	<u>239</u>	<u>(9,258)</u>	<u>(38,512)</u>	<u>(2,438,088)</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund (concluded)**

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	\$ 10,954,577	\$ 3,631,651	\$ 138,084	\$ 497,426	\$ 142,201
Proceeds from Interest and Investment Income	1,397,184	51,055	54,321	43,045	5,492
Payments for Nonprogram Loans Provided					
Payments to Acquire Investments	(11,980,672)	(3,077,521)	(206,228)	(515,781)	(148,035)
Net Cash Provided (Used) by Investing Activities	<u>371,089</u>	<u>605,185</u>	<u>(13,823)</u>	<u>24,690</u>	<u>(342)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(386,364)</u>	<u>539,943</u>	<u>(66,155)</u>	<u>46,540</u>	<u>36,806</u>
Cash and Cash Equivalents, September 1, 2010	<u>2,562,653</u>	<u>321,851</u>	<u>530,848</u>	<u>277,116</u>	<u>571,437</u>
Cash and Cash Equivalents, August 31, 2011	<u>\$ 2,176,289</u>	<u>\$ 861,794</u>	<u>\$ 464,693</u>	<u>\$ 323,656</u>	<u>\$ 608,243</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES					
Operating Loss	\$ (3,168,240)	\$ (1,667,513)	\$ (455,651)	\$ (422,810)	\$ (390,406)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation and Amortization	902,392	206,547	100,322	68,166	61,227
Bad Debt Expense	270,761	2,988	686	(22,576)	1,888
Operating Loss and Cash Flow Categories Classification Differences	364,583	117,235	45,846	53,537	25,452
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(450,562)	12,243	(10,602)		(13,754)
(Increase) Decrease in Due From Other Funds		2,730	1,303		935
(Increase) Decrease in Inventories	(10,653)	307	(24)	128	(238)
(Increase) Decrease in Notes Receivable			1,924		2,388
(Increase) Decrease in Loans and Contracts	1,182	(46)		(84)	(1,705)
(Increase) Decrease in Other Assets	1,495	(1,657)		(1,683)	6
(Increase) Decrease in Prepaid Expenses		(2,428)	30,968	3,672	(6,941)
Increase (Decrease) in Payables	137,258	176,160	2,092	552	28,610
Increase (Decrease) in Deposits	17,484	1,752			65
Increase (Decrease) in Due To Other Funds		(402)	(593)		(357)
Increase (Decrease) in Unearned Revenue	49,910	31,078	7,373	9,010	11,122
Increase (Decrease) in Compensated Absence Liability	12,190	(3,330)	(3,670)	802	1,006
Increase (Decrease) in Benefits Payable	470,889	134,410	(3,132)	2,297	(1,752)
Increase (Decrease) in Other Liabilities	2,624	1,574	(354)	(39)	(319)
Total Adjustments	<u>1,769,553</u>	<u>679,161</u>	<u>172,139</u>	<u>113,782</u>	<u>107,633</u>
Net Cash Used by Operating Activities	<u>\$ (1,398,687)</u>	<u>\$ (988,352)</u>	<u>\$ (283,512)</u>	<u>\$ (309,028)</u>	<u>\$ (282,773)</u>
NONCASH TRANSACTIONS					
Net Change in Fair Value of Investments	\$ 1,723,199	\$ 182,161	\$ 36,885	\$ 29,126	\$ 5,992
Donation of Capital Assets	\$ 122,503	\$ 3,869	\$ 55,449	\$	\$ 759
Borrowing Under Capital Lease Purchase	\$ 869	\$	\$ 98	\$	\$
Other	\$ (33,111)	\$ 47,843	\$ (2,879)	\$	\$ 220

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 135,774	\$ 44,698	\$ 14,103	\$ 253	\$ 4,784	\$ 33,739	\$ 15,597,290
6,300	4,237	1,953	1,391	711	366	1,566,055
			(78)			(78)
(51,987)	(52,117)	(15,927)	(2,020)	(3,524)	(7,615)	(16,061,427)
90,087	(3,182)	129	(454)	1,971	26,490	1,101,840
24,341	1,888	(24,955)	20,071	629	14,746	207,490
362,353	10,456	92,519	46,619	5,059	24,415	4,805,326
\$ 386,694	\$ 12,344	\$ 67,564	\$ 66,690	\$ 5,688	\$ 39,161	\$ 5,012,816
\$ (272,128)	\$ (72,190)	\$ (84,418)	\$ (78,844)	\$ (37,615)	\$ (110,088)	\$ (6,759,903)
38,001	11,195	14,278	12,698	9,828	7,983	1,432,637
4,244	629	83	2,176	175		261,054
26,155	9,576	12,933	7,890	3,658	16,089	682,954
7,118	4,705	(11,161)	(2,084)	(574)	(1,358)	(466,029)
	22	(87)	(8,239)	(56)	(584)	(3,976)
228	76	55	23	5	(40)	(10,133)
						4,312
(239)		438		43		(411)
(7,292)			702		1	(8,428)
396	(66)	(322)	(4,659)	262		20,882
7,267	257	(1,843)	(944)	(982)	591	349,018
			(82)		317	19,536
	700	328				(324)
8,893	853	3,564	9,573	448	1,600	133,424
	(230)	(206)	73	4	(387)	6,252
						602,712
	(286)	2,716	9,719	(8)	(282)	15,345
84,771	27,431	20,776	26,846	12,803	23,930	3,038,825
\$ (187,357)	\$ (44,759)	\$ (63,642)	\$ (51,998)	\$ (24,812)	\$ (86,158)	\$ (3,721,078)
\$ 2,328	\$ 756	\$ 123	\$ 3,147	\$ 218	\$	\$ 1,983,935
\$ (281)	\$	\$	\$ 154	\$	\$ 472	\$ 182,925
\$	\$	\$	\$	\$	\$ 5	\$ 972
\$ 1,817	\$	\$	\$	\$ (59)	\$ (135)	\$ 13,696



Section Two
(continued)

**FIDUCIARY
FUNDS**
(AND SIMILAR COMPONENT UNITS)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **State Employees Retirement System (S.E.R.S.) Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized

to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa\$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

August 31, 2011 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,079,188	\$ 25,015	\$ 1,509	\$ 825	\$ 272
Securities Lending Collateral	22,760,168				
Investments:					
U.S. Government	19,266,126	5,224,469	181,572	63,739	
Corporate Equity	19,009,421	6,361,932	221,104	77,617	32,745
Corporate Obligations	1,148,437	1,560,432	54,232	19,038	
Foreign Securities	22,931,784	5,153,664	179,111	62,876	13,831
Externally Managed Investments	26,905,493	1,001,693	34,813	12,221	
Other	16,786,841	1,675,798	58,246	20,408	14,901
Receivables:					
Interest and Dividends	244,763	76,830	2,638	951	42
Accounts	124,635	62,992	2,581	1,307	845
Investment Trades	931,132	87,447	3,018	1,147	57
Other	235				
Due From Other Funds	23,719	7,964			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	29,045	11,157			
Other Assets					
Total Assets	131,240,987	21,249,393	738,824	260,129	62,693
LIABILITIES					
Payables:					
Accounts	\$ 52,081	\$ 21,646	\$ 369	\$ 146	\$ 81
Investment Trades	235,904	18,879	653	247	17
Payroll	3,646				
Annuities	649,897	147	17		
Due To Other Funds	73,734	1,259	369	112	
Unearned Revenue	19,563	1,101			130
Employees' Compensable Leave	4,619	2,268			
Obligations/Securities Lending	22,779,224				
Other Liabilities	1,534				
Total Liabilities	23,820,202	45,300	1,408	505	228
NET POSITION					
Held in Trust for Pension Benefits and Other Purposes	\$ 107,420,785	\$ 21,204,093	\$ 737,416	\$ 259,624	\$ 62,465

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 928,047	\$ 17,570	\$ 2,165	\$ 5,414	\$ 2,772	\$ 2,062,777
						22,760,168
						24,735,906
						25,702,819
						2,782,139
						28,341,266
						27,954,220
		36,572				18,592,766
	658		1	2	3	325,888
	59,627	16,591	78	7,085	122	275,863
						1,022,801
						235
302	14,310	46,495		52		92,842
						40,202
				250		250
302	1,002,642	117,228	2,244	12,803	2,897	154,690,142
\$ 302	\$ 99,912	\$ 115,841	\$ 1,210	\$ 10,825	\$	\$ 302,413
	162					255,700
						3,808
	11,514	608	73	63	99	650,061
		779	17			87,831
	184					21,590
						7,071
						22,779,224
						1,534
302	111,772	117,228	1,300	10,888	99	24,109,232
\$ 0	\$ 890,870	\$ 0	\$ 944	\$ 1,915	\$ 2,798	\$ 130,580,910

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	\$ 2,243,955	\$ 425,811	\$ 7,604	\$ 4,291	\$ 3,523
State Contributions	1,595,460	414,084	24,228	11,933	
Premium Contributions					
Federal Contributions					
Other Contributions	849,910				
Total Contributions	<u>4,689,325</u>	<u>839,895</u>	<u>31,832</u>	<u>16,224</u>	<u>3,523</u>
Investment Income:					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	12,616,681	1,920,579	65,020	23,797	6,540
Interest and Investment Income	2,124,171	550,974	18,876	7,069	1,690
Total Investing Income	<u>14,740,852</u>	<u>2,471,553</u>	<u>83,896</u>	<u>30,866</u>	<u>8,230</u>
Less Investing Activities Expense	183,370	60,347	2,140	723	386
Net Income from Investing Activities	<u>14,557,482</u>	<u>2,411,206</u>	<u>81,756</u>	<u>30,143</u>	<u>7,844</u>
From Securities Lending Activities:					
Securities Lending Income	135,755	1,427	49	18	
Less Securities Lending Expense:					
Borrower Rebates*	36,112	(2,831)	(97)	(37)	
Management Fees	20,191	633	22	8	
Net Income from Securities Lending	<u>79,452</u>	<u>3,625</u>	<u>124</u>	<u>47</u>	<u>0</u>
Total Net Investment Income	<u>14,636,934</u>	<u>2,414,831</u>	<u>81,880</u>	<u>30,190</u>	<u>7,844</u>
Other Additions:					
Settlement of Claims					7
Other Revenue	1,576	199	2	1	1
Transfer In	14,691	64,975			
Total Other Additions	<u>16,267</u>	<u>65,174</u>	<u>2</u>	<u>1</u>	<u>8</u>
Total Additions	<u>19,342,526</u>	<u>3,319,900</u>	<u>113,714</u>	<u>46,415</u>	<u>11,375</u>
DEDUCTIONS					
Benefits	7,175,052	1,585,347	43,020	11,722	3,364
Refunds of Contributions	334,269	79,535	695	48	
Transfer Out	64,975	12,674			
Administrative Expenses	29,189	17,167	894	274	133
Depreciation and Amortization Expense	1,283	963			
Interest Expense					
Loss on Sale of Properties		12			
Loss on Impairment of Capital Assets	4,478				
Other Expenses	900	719	42	12	2
Total Deductions	<u>7,610,146</u>	<u>1,696,417</u>	<u>44,651</u>	<u>12,056</u>	<u>3,499</u>
INCREASE (DECREASE) IN NET POSITION	<u>11,732,380</u>	<u>1,623,483</u>	<u>69,063</u>	<u>34,359</u>	<u>7,876</u>
NET POSITION					
Net Position, September 1, 2010	<u>95,688,405</u>	<u>19,580,610</u>	<u>668,353</u>	<u>225,265</u>	<u>54,589</u>
Net Position, August 31, 2011	<u>\$ 107,420,785</u>	<u>\$ 21,204,093</u>	<u>\$ 737,416</u>	<u>\$ 259,624</u>	<u>\$ 62,465</u>

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 183,809	\$	\$	\$ 95,123	\$	\$ 2,964,116
	259,123	444,895				2,749,723
	345,164	135,133				480,297
	136,888	68,383				205,271
	184,509			909		1,035,328
0	1,109,493	648,411	0	96,032	0	7,434,735
						14,632,617
	8,169	437	15	22	46	2,711,469
0	8,169	437	15	22	46	17,344,086
		2	2	2	3	246,975
0	8,169	435	13	20	43	17,097,111
						137,249
						33,147
						20,854
0	0	0	0	0	0	83,248
0	8,169	435	13	20	43	17,180,359
						7
			513	104	830	3,226
26,988						106,654
26,988	0	0	513	104	830	109,887
26,988	1,117,662	648,846	526	96,156	873	24,724,981
26,988	1,036,594	646,197		93,737		10,622,021
	2,017					414,547
	3,136	2,528	497	392	603	79,666
						54,813
						2,246
				40		40
						12
	9	121	13	2,292	12	4,478
						4,122
26,988	1,041,756	648,846	510	96,461	615	11,181,945
0	75,906	0	16	(305)	258	13,543,036
	814,964		928	2,220	2,540	117,037,874
\$ 0	\$ 890,870	\$ 0	\$ 944	\$ 1,915	\$ 2,798	\$ 130,580,910

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the money received in the settlement of the State of Texas v. The American Tobacco Co., et. al., designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas College Savings Plans** receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2011 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$ 6	\$279,443	\$129,924	\$ 5,834	\$ 2,232	\$49,473	\$ 466,912
Restricted Cash and Cash Equivalents						14	14
Investments:							
U.S. Government				18,976		1,477	20,453
Corporate Equity	139,871					10,042	149,913
Corporate Obligations	257,625					2,529	260,154
Other	1,653,776				302,035	16,321	1,972,132
Receivables:							
Interest and Dividends	1,488				23	10	1,521
Accounts						288	288
Investment Trades	6,623				710		7,333
Other					96	4,245	4,341
Properties, at Cost, Net of Accumulated Depreciation or Amortization						881	881
Other Assets		84,379					84,379
Total Assets	<u>2,059,389</u>	<u>363,822</u>	<u>129,924</u>	<u>24,810</u>	<u>305,096</u>	<u>85,280</u>	<u>2,968,321</u>
LIABILITIES							
Payables:							
Accounts	\$ 1,057	\$ 1	\$	\$ 2,300	\$ 110	\$24,644	\$ 28,112
Investment Trades	7,887				565		8,452
Interest						17	17
Due To Other Funds					1	5	6
Unearned Revenue					417	17	434
Funds Held for Others		84,379					84,379
Other Liabilities	<u>7</u>				<u>3</u>		<u>10</u>
Total Liabilities	<u>8,951</u>	<u>84,380</u>	<u>0</u>	<u>2,300</u>	<u>1,096</u>	<u>24,683</u>	<u>121,410</u>
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	<u>2,050,438</u>	<u>279,442</u>	<u>129,924</u>	<u>22,510</u>	<u>304,000</u>	<u>60,597</u>	<u>2,846,911</u>
Total Net Position	<u>\$2,050,438</u>	<u>\$279,442</u>	<u>\$129,924</u>	<u>\$22,510</u>	<u>\$304,000</u>	<u>\$60,597</u>	<u>\$2,846,911</u>

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$13,995	\$ 13,995
Other Contributions					125,435		125,435
Total Contributions	0	0	0	0	125,435	13,995	139,430
Investment Income:							
From Investing Activities:							
Net Appreciation in							
Fair Value of Investments	171,954				29,747	814	202,515
Interest and Investment Income	28,644	212	83		1,119	2,195	32,253
Total Investing Income	200,598	212	83	0	30,866	3,009	234,768
Less Investing Activities Expense					1,549		1,549
Net Income from Investing							
Activities	200,598	212	83	0	29,317	3,009	233,219
Total Net Investment Income	200,598	212	83	0	29,317	3,009	233,219
Other Additions:							
Settlement of Claims						5,538	5,538
Other Revenue		137,970	55,791	129,988	96	2,629	326,474
Total Other Additions	0	137,970	55,791	129,988	96	8,167	332,012
Total Additions	200,598	138,182	55,874	129,988	154,848	25,171	704,661
DEDUCTIONS							
Benefits					100,325	3,186	103,511
Transfer Out						120	120
Intergovernmental Payments	51,000					15,320	66,320
Administrative Expenses	6,242				98	281	6,621
Depreciation and Amortization Expense						39	39
Settlement of Claims		50,148				6,494	56,642
Interest Expense						6	6
Other Expenses		11,184		129,976		1,294	142,454
Total Deductions	57,242	61,332	0	129,976	100,423	26,740	375,713
INCREASE (DECREASE) IN NET POSITION	143,356	76,850	55,874	12	54,425	(1,569)	328,948
NET POSITION							
Net Position, September 1, 2010	1,907,082	202,592	74,050	22,498	249,575	62,199	2,517,996
Restatements						(33)	(33)
Net Position, September 1, 2010, as Restated	1,907,082	202,592	74,050	22,498	249,575	62,166	2,517,963
Net Position, August 31, 2011	<u>\$ 2,050,438</u>	<u>\$ 279,442</u>	<u>\$ 129,924</u>	<u>\$ 22,510</u>	<u>\$ 304,000</u>	<u>\$ 60,597</u>	<u>\$ 2,846,911</u>

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2011 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 149	\$ 278	\$ 10,020	\$726,981	\$ 617,117	\$ 1,354,545
Investments:						
U.S. Government	359,704				76	359,780
Corporate Equity					129,365	129,365
Corporate Obligations					16	16
Repurchase Agreements					33,829	33,829
Other					61,893	61,893
Receivables:						
Interest and Dividends	1,391					1,391
Accounts					7,233	7,233
Other Intergovernmental					918	918
Due From Other Funds					738	738
Other Assets		1,092,430	563,466		76,564	1,732,460
Total Assets	<u>\$ 361,244</u>	<u>\$ 1,092,708</u>	<u>\$ 573,486</u>	<u>\$ 726,981</u>	<u>\$ 927,749</u>	<u>\$ 3,682,168</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	\$ 229	\$ 229
Other Intergovernmental				726,981		726,981
Due To Other Funds					2,988	2,988
Funds Held for Others	361,244	1,092,708	573,486		924,523	2,951,961
Other Liabilities					9	9
Total Liabilities	<u>\$ 361,244</u>	<u>\$ 1,092,708</u>	<u>\$ 573,486</u>	<u>\$ 726,981</u>	<u>\$ 927,749</u>	<u>\$ 3,682,168</u>

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Balance September 1, 2010	Additions	Deductions	Balance August 31, 2011
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 18	\$ 131	\$	\$ 149
Investments	201,071	158,633		359,704
Interest and Dividends Receivable	572	819		1,391
Total Assets	<u>\$ 201,661</u>	<u>\$ 159,583</u>	<u>\$ 0</u>	<u>\$ 361,244</u>
LIABILITIES				
Funds Held for Others	\$ 201,661	\$ 159,583	\$	\$ 361,244
Total Liabilities	<u>\$ 201,661</u>	<u>\$ 159,583</u>	<u>\$ 0</u>	<u>\$ 361,244</u>
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 328	\$ 328	\$ 378	\$ 278
Other Assets	1,214,625	328,971	451,166	1,092,430
Total Assets	<u>\$ 1,214,953</u>	<u>\$ 329,299</u>	<u>\$ 451,544</u>	<u>\$ 1,092,708</u>
LIABILITIES				
Accounts Payable	\$	\$ 50	\$ 50	\$
Funds Held for Others	1,214,953	329,299	451,544	1,092,708
Total Liabilities	<u>\$ 1,214,953</u>	<u>\$ 329,349</u>	<u>\$ 451,594</u>	<u>\$ 1,092,708</u>
Texas Workers' Compensation Self-Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 11,140	\$ 12,681	\$ 13,801	\$ 10,020
Other Assets	534,966	29,500	1,000	563,466
Total Assets	<u>\$ 546,106</u>	<u>\$ 42,181</u>	<u>\$ 14,801</u>	<u>\$ 573,486</u>
LIABILITIES				
Accounts Payable	\$	\$ 1,291	\$ 1,291	\$
Funds Held for Others	546,106	31,041	3,661	573,486
Total Liabilities	<u>\$ 546,106</u>	<u>\$ 32,332</u>	<u>\$ 4,952</u>	<u>\$ 573,486</u>
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 746,033	\$ 7,277,426	\$ 7,296,478	\$ 726,981
Total Assets	<u>\$ 746,033</u>	<u>\$ 7,277,426</u>	<u>\$ 7,296,478</u>	<u>\$ 726,981</u>
LIABILITIES				
Payables:				
Accounts	\$	\$ 6,148,219	\$ 6,148,219	\$
Other Intergovernmental	746,033	726,981	746,033	726,981
Funds Held for Others		8,023,459	8,023,459	
Total Liabilities	<u>\$ 746,033</u>	<u>\$ 14,898,659</u>	<u>\$ 14,917,711</u>	<u>\$ 726,981</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)

	Balance September 1, 2010	Additions	Deductions	Balance August 31, 2011
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 509,840	\$ 9,370,879	\$ 9,263,602	\$ 617,117
Investments	281,540	201,053	257,414	225,179
Receivables:				
Interest and Dividends	1		1	
Accounts	7,222	124,173	124,162	7,233
Other Intergovernmental	2,230		1,312	918
Other	6		6	
Due From Other Funds	192	738	192	738
Interfund Receivable		134,137	134,137	
Other Assets	70,393	6,276	105	76,564
Total Assets	<u>\$ 871,424</u>	<u>\$ 9,837,256</u>	<u>\$ 9,780,931</u>	<u>\$ 927,749</u>
LIABILITIES				
Payables:				
Accounts	\$ 814	\$ 677,907	\$ 678,492	\$ 229
Due To Other Funds	28,544	2,988	28,544	2,988
Interfund Payable	26	134,134	134,160	
Funds Held for Others	842,030	8,944,236	8,861,743	924,523
Other Liabilities	10		1	9
Total Liabilities	<u>\$ 871,424</u>	<u>\$ 9,759,265</u>	<u>\$ 9,702,940</u>	<u>\$ 927,749</u>
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 1,267,359	\$ 16,661,445	\$ 16,574,259	\$ 1,354,545
Investments	482,611	359,686	257,414	584,883
Receivables:				
Interest and Dividends	573	819	1	1,391
Accounts	7,222	124,173	124,162	7,233
Other Intergovernmental	2,230		1,312	918
Other	6		6	
Due From Other Funds	192	738	192	738
Interfund Receivable		134,137	134,137	
Other Assets	1,819,984	364,747	452,271	1,732,460
Total Assets	<u>\$ 3,580,177</u>	<u>\$ 17,645,745</u>	<u>\$ 17,543,754</u>	<u>\$ 3,682,168</u>
LIABILITIES				
Payables:				
Accounts	\$ 814	\$ 6,827,467	\$ 6,828,052	\$ 229
Other Intergovernmental	746,033	726,981	746,033	726,981
Due To Other Funds	28,544	2,988	28,544	2,988
Interfund Payable	26	134,134	134,160	
Funds Held for Others	2,804,750	17,487,618	17,340,407	2,951,961
Other Liabilities	10		1	9
Total Liabilities	<u>\$ 3,580,177</u>	<u>\$ 25,179,188</u>	<u>\$ 25,077,197</u>	<u>\$ 3,682,168</u>



Section Two
(concluded)

DISCRETELY PRESENTED
COMPONENT UNITS

Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units:

Texas Guaranteed Student Loan Corporation
Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
OneStar National Service Commission
Texas Windstorm Insurance Association
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Casa Verde Research Center, Sociedad Anonimo
Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center)
National Biosecurity Foundation

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2011 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 27,426	\$ 259,257	\$ 13,638	\$ 3,094	\$ 1,462	\$ 504,857	\$ 614
Short-Term Investments	682,881		24,902	1,999			4,975
Restricted:							
Cash and Cash Equivalents				46,800			
Loans and Contracts				1,155			
Receivables:							
Federal	65,196				253		
Other Intergovernmental					157		
Accounts		106,039	1,292	335		28,559	175
Interest and Dividends	7,745	225		698			
Other							78
Due From Primary Government							
Inventories			582				
Prepaid Items			616	30		32,979	
Loans and Contracts							
Other Current Assets	1,846		200		50		
Total Current Assets	<u>785,094</u>	<u>365,521</u>	<u>41,230</u>	<u>54,111</u>	<u>1,922</u>	<u>566,395</u>	<u>5,842</u>
Noncurrent Assets:							
Restricted:							
Investments				249,468			
Loans and Contracts				10,416			
Loans and Contracts							
Investments				1,022			1,050
Other Receivables							
Other Noncurrent Assets	28			8,409	15	336	70
Capital Assets:							
Non-Depreciable or Non-Amortizable	4,528		154	232			
Depreciable or Amortizable, Net	38,985		10,619	1,213		782	2,993
Total Noncurrent Assets	<u>43,541</u>	<u>0</u>	<u>10,773</u>	<u>270,760</u>	<u>15</u>	<u>1,118</u>	<u>4,113</u>
Total Assets	<u>828,635</u>	<u>365,521</u>	<u>52,003</u>	<u>324,871</u>	<u>1,937</u>	<u>567,513</u>	<u>9,955</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2011 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	\$ 6,161	\$177,064	\$ 2,409	\$ 471	\$ 443	\$ 89,933	\$ 75
Payroll		125					48
Federal	74,222						
Interest				2,415			
Due To Primary Government							
Unearned Revenue			11,450		1,393	185,996	
Capital Lease Obligations			48				
Employees' Compensable Leave	1,846	89	484				55
Notes and Loans Payable	1,962			483			
Revenue Bonds Payable				42,840			
Funds Held for Others			264				
Other Current Liabilities			11	275		250,032	
Total Current Liabilities	<u>84,191</u>	<u>177,278</u>	<u>14,666</u>	<u>46,484</u>	<u>1,836</u>	<u>525,961</u>	<u>178</u>
Noncurrent Liabilities:							
Capital Lease Obligations			95				
Employees' Compensable Leave	1,242	52	841				
Notes and Loans Payable	675			3,220			
Liabilities Payable From Restricted Assets	50,080						
Revenue Bonds Payable				233,669			
Other Noncurrent Liabilities	220,950		34	4,159			
Total Noncurrent Liabilities	<u>272,947</u>	<u>52</u>	<u>970</u>	<u>241,048</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>357,138</u>	<u>177,330</u>	<u>15,636</u>	<u>287,532</u>	<u>1,836</u>	<u>525,961</u>	<u>178</u>
NET POSITION							
Invested in Capital Assets, Net of Related Debt	40,876		10,632	677		782	2,992
Restricted for:							
Education	101,319						
Other		188,191		28,775	272		
Unrestricted	<u>329,302</u>		<u>25,735</u>	<u>7,887</u>	<u>(171)</u>	<u>40,770</u>	<u>6,785</u>
Total Net Position	<u>\$471,497</u>	<u>\$188,191</u>	<u>\$ 36,367</u>	<u>\$ 37,339</u>	<u>\$ 101</u>	<u>\$ 41,552</u>	<u>\$ 9,777</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2011, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2011 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 605	\$ 30,074	\$ 77,652	\$ 14,989	\$ 7,664	\$	\$
Short-Term Investments		5,994			15,811		
Restricted:							
Cash and Cash Equivalents							
Loans and Contracts							
Receivables:							
Federal			1,974				
Other Intergovernmental			12,544				
Accounts	3	58,378	2,015				
Interest and Dividends				39	243		
Other			138				
Due From Primary Government						273	252
Inventories			3,294				3
Prepaid Items			180	3			
Loans and Contracts				100	2,531		
Other Current Assets				6			
Total Current Assets	608	94,446	97,797	15,137	26,249	273	255
Noncurrent Assets:							
Restricted:							
Investments							
Loans and Contracts							
Loans and Contracts				3,851	14,287		
Investments					4,167		
Other Receivables			2,222				
Other Noncurrent Assets		11					
Capital Assets:							
Non-Depreciable or Non-Amortizable		15	3,613				113
Depreciable or Amortizable, Net							
Total Noncurrent Assets	0	26	5,835	3,851	18,454	0	113
Total Assets	608	94,472	103,632	18,988	44,703	273	368

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2011 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	\$ 22	\$ 1,025	\$ 242	\$ 26	\$	\$ 7	\$ 85
Payroll			495			1	66
Federal							
Interest			535				
Due To Primary Government					1	55	
Unearned Revenue		46,686					
Capital Lease Obligations							
Employees' Compensable Leave			981	7			55
Notes and Loans Payable			26	8,997			
Revenue Bonds Payable							
Funds Held for Others							
Other Current Liabilities	586	46,761					
Total Current Liabilities	<u>608</u>	<u>94,472</u>	<u>2,279</u>	<u>9,030</u>	<u>1</u>	<u>63</u>	<u>206</u>
Noncurrent Liabilities:							
Capital Lease Obligations							
Employees' Compensable Leave				5			28
Notes and Loans Payable			57,843				
Liabilities Payable From Restricted Assets							
Revenue Bonds Payable							
Other Noncurrent Liabilities							
Total Noncurrent Liabilities	<u>0</u>	<u>0</u>	<u>57,843</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>28</u>
Total Liabilities	<u>608</u>	<u>94,472</u>	<u>60,122</u>	<u>9,035</u>	<u>1</u>	<u>63</u>	<u>234</u>
NET POSITION							
Invested in Capital Assets, Net of Related Debt			1,697				
Restricted for:							
Education							
Other							
Unrestricted			41,813	9,953	44,702	210	134
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 43,510</u>	<u>\$ 9,953</u>	<u>\$ 44,702</u>	<u>\$ 210</u>	<u>\$ 134</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2011, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2011 (Amounts in Thousands)*

	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation	Totals
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$ 1,932	\$ 23,580	\$ 718	\$	\$ 16	\$ 87	\$ 38	\$ 967,703
Short-Term Investments								736,562
Restricted:								
Cash and Cash Equivalents				1,137				47,937
Loans and Contracts								1,155
Receivables:								
Federal								67,423
Other Intergovernmental								12,701
Accounts	11							196,807
Interest and Dividends		97						9,047
Other						38		254
Due From Primary Government								525
Inventories								3,879
Prepaid Items	104	11		6				33,929
Loans and Contracts		1,219						3,850
Other Current Assets					1			2,103
Total Current Assets	<u>2,047</u>	<u>24,907</u>	<u>718</u>	<u>1,143</u>	<u>17</u>	<u>125</u>	<u>38</u>	<u>2,083,875</u>
Noncurrent Assets:								
Restricted:								
Investments								249,468
Loans and Contracts								10,416
Loans and Contracts		36,537						54,675
Investments								6,239
Other Receivables								2,222
Other Noncurrent Assets					15			8,884
Capital Assets:								
Non-Depreciable or Non-Amortizable					4			4,918
Depreciable or Amortizable, Net	11			21	660	109		59,134
Total Noncurrent Assets	<u>11</u>	<u>36,537</u>	<u>0</u>	<u>21</u>	<u>679</u>	<u>109</u>	<u>0</u>	<u>395,956</u>
Total Assets	<u>2,058</u>	<u>61,444</u>	<u>718</u>	<u>1,164</u>	<u>696</u>	<u>234</u>	<u>38</u>	<u>2,479,831</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2011 (Amounts in Thousands)*

	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation	Totals
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts	\$ 54	\$ 217	\$	\$	\$ 9	\$ 17	\$	\$ 278,260
Payroll					10			745
Federal								74,222
Interest		9						2,959
Due To Primary Government								56
Unearned Revenue								245,525
Capital Lease Obligations								48
Employees' Compensable Leave								3,517
Notes and Loans Payable								11,468
Revenue Bonds Payable								42,840
Funds Held for Others								264
Other Current Liabilities								297,665
Total Current Liabilities	<u>54</u>	<u>226</u>	<u>0</u>	<u>0</u>	<u>19</u>	<u>17</u>	<u>0</u>	<u>957,569</u>
Noncurrent Liabilities:								
Capital Lease Obligations								95
Employees' Compensable Leave								2,168
Notes and Loans Payable								61,738
Liabilities Payable From Restricted Assets								50,080
Revenue Bonds Payable		60,000						293,669
Other Noncurrent Liabilities					1,004	55		226,202
Total Noncurrent Liabilities	<u>0</u>	<u>60,000</u>	<u>0</u>	<u>0</u>	<u>1,004</u>	<u>55</u>	<u>0</u>	<u>633,952</u>
Total Liabilities	<u>54</u>	<u>60,226</u>	<u>0</u>	<u>0</u>	<u>1,023</u>	<u>72</u>	<u>0</u>	<u>1,591,521</u>
NET POSITION								
Invested in Capital Assets, Net of Related Debt								57,656
Restricted for:								
Education								101,319
Other								217,238
Unrestricted	<u>2,004</u>	<u>1,218</u>	<u>718</u>	<u>1,164</u>	<u>(327)</u>	<u>162</u>	<u>38</u>	<u>512,097</u>
Total Net Position	<u>\$2,004</u>	<u>\$ 1,218</u>	<u>\$ 718</u>	<u>\$1,164</u>	<u>\$ (327)</u>	<u>\$ 162</u>	<u>\$ 38</u>	<u>\$ 888,310</u>

* Amounts reported as of Aug. 31, 2011, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission
EXPENSES					
Salaries and Wages	\$ 41,292	\$ 1,259	\$ 15,869	\$ 1,396	\$ 1,425
Payroll Related Costs	12,921	291	4,273		345
Professional Fees and Services	14,125	726	2,442	238	1,303
Travel	1,794	2	6,972	55	183
Materials and Supplies	1,390	4	2,722		41
Communications and Utilities	1,272	1	599		31
Repairs and Maintenance	3,247		778		
Rentals and Leases	569	65	1,355	44	250
Printing and Reproduction	295	1	2,133		27
Claims and Judgments			740		
Bad Debt Expense					
Cost of Goods Sold			671		
Depreciation and Amortization	4,660		888	567	
Other Financing Fees	94				
Intergovernmental Payments					
Public Assistance Payments	22,492				13,200
Employee/Participant Benefit Payments		1,663,323			
Direct Interest Expense					
Interest Expense - Other	167		6	10,679	
Other Expenses	14,029	7	3,709	4,835	70
Total Expenses	<u>118,347</u>	<u>1,665,679</u>	<u>43,157</u>	<u>17,814</u>	<u>16,875</u>
PROGRAM REVENUES					
Charges for Services	590	1,549,682	38,801	1,452	50
Operating Grants and Contributions	139,186	743	6,081	24,439	16,837
Total Program Revenues	<u>139,776</u>	<u>1,550,425</u>	<u>44,882</u>	<u>25,891</u>	<u>16,887</u>
Net Program Revenues (Expenses)	<u>21,429</u>	<u>(115,254)</u>	<u>1,725</u>	<u>8,077</u>	<u>12</u>
GENERAL REVENUES					
Unrestricted Investment Earnings	(6,742)	3,389			
Other Revenues				421	
Gain on Sale of Capital Assets					
Total General Revenues	<u>(6,742)</u>	<u>3,389</u>	<u>0</u>	<u>421</u>	<u>0</u>
Change in Net Position	<u>14,687</u>	<u>(111,865)</u>	<u>1,725</u>	<u>8,498</u>	<u>12</u>
Net Position, September 1, 2010	456,810	300,056	34,642	28,841	
Restatements					89
Net Position, September 1, 2010, as Restated	<u>456,810</u>	<u>300,056</u>	<u>34,642</u>	<u>28,841</u>	<u>89</u>
Net Position, August 31, 2011	<u>\$ 471,497</u>	<u>\$ 188,191</u>	<u>\$ 36,367</u>	<u>\$ 37,339</u>	<u>\$ 101</u>

* Amounts for the fiscal year ended Aug. 31, 2011, unless otherwise indicated in Note 19.

Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority
\$ 60,674 1,048	\$ 1,236 395	\$	\$ 358	\$ 15,803	\$ 109 40
	363		12,431	844	45
	6		3	322	4
	50		35	9,560	3
	40			583	
	43			851	
701	118		75	742	2
	4				1
(13)					
755	146		4	2,079	(1)
97					
40					
				2,139	
351,121	153	65	309,198	7,491	118
414,299	2,554	65	322,104	40,414	445
343,925	1,993	38	312,410	28,589	952
1,011	67	27	9,694	24,337	
344,936	2,060	65	322,104	52,926	952
(69,363)	(494)	0	0	12,512	507
194					
235					
1					
				163	
0	0	0	0	357	236
(69,363)	(494)	0	0	12,869	743
110,915	10,271			29,936	9,210
110,915	10,271	0	0	705	
				30,641	9,210
\$ 41,552	\$ 9,777	\$ 0	\$ 0	\$ 43,510	\$ 9,953

Concluded on the following page

STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2011 (Amounts in Thousands)*

	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation
EXPENSES					
Salaries and Wages	\$ 3	\$ 2	\$ 656	\$ 7	\$
Payroll Related Costs			156	1	
Professional Fees and Services		28	14	367	50
Travel		18	18	188	
Materials and Supplies			32	174	
Communication and Utilities			6	1	
Repairs and Maintenance			10		
Rentals and Leases			41	130	
Printing and Reproduction				16	
Claims and Judgments					
Bad Debt Expense					
Cost of Goods Sold					
Depreciation and Amortization			13	6	
Other Financing Fees		219			
Intergovernmental Payments		30			
Public Assistance Payments	4,851				
Employee/Participant Benefit Payments					
Direct Interest Expense					
Interest Expense - Other					142
Other Expenses	14	5	69	243	988
Total Expenses	<u>4,868</u>	<u>302</u>	<u>1,015</u>	<u>1,133</u>	<u>1,180</u>
PROGRAM REVENUES					
Charges for Services			26	71	
Operating Grants and Contributions	2,315			1,222	1,233
Total Program Revenues	<u>2,315</u>	<u>0</u>	<u>26</u>	<u>1,293</u>	<u>1,233</u>
Net Program Revenues (Expenses)	<u>(2,553)</u>	<u>(302)</u>	<u>(989)</u>	<u>160</u>	<u>53</u>
GENERAL REVENUES					
Unrestricted Investment Earnings				2	2
Other Revenues		288	978	8	
Gain on Sale of Capital Assets					
Total General Revenues	<u>0</u>	<u>288</u>	<u>978</u>	<u>10</u>	<u>2</u>
Change in Net Position	<u>(2,553)</u>	<u>(14)</u>	<u>(11)</u>	<u>170</u>	<u>55</u>
Net Position, September 1, 2010	47,255	224	145	1,834	1,163
Restatements					
Net Position, September 1, 2010, as Restated	<u>47,255</u>	<u>224</u>	<u>145</u>	<u>1,834</u>	<u>1,163</u>
Net Position, August 31, 2011	<u>\$ 44,702</u>	<u>\$ 210</u>	<u>\$ 134</u>	<u>\$ 2,004</u>	<u>\$ 1,218</u>

* Amounts for the fiscal year ended Aug. 31, 2011, unless otherwise indicated in Note 1

Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation	Totals
\$	\$ 242	\$ 160	\$	\$	\$ 140,491
	32	40			19,542
	194	26			33,196
	12	56			9,633
	3	42		10	14,066
	10	26			2,569
		11			4,940
	19	7			4,118
				1	2,478
					740
51					38
			276		947
	2	31	12		9,163
		35	61		408
					30
					40,640
					1,663,323
					40
					13,133
1	6	6	302	1	692,431
52	520	440	651	12	2,651,926
	1,681		312		2,280,572
3		26	369	50	227,640
3	1,681	26	681	50	2,508,212
(49)	1,161	(414)	30	38	(143,714)
					(2,920)
8					1,704
					163
8	0	0	0	0	(1,053)
(41)	1,161	(414)	30	38	(144,767)
759	45	3,247	125		924,563
	(42)	(3,160)	7		108,514
759	3	87	132	0	1,033,077
\$ 718	\$ 1,164	\$ (327)	\$ 162	\$ 38	\$ 888,310



Section Three

STATISTICAL SECTION

State of Texas Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state's overall financial health.

Contents	Pages
Financial Trends Information	247 – 253
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.	
Revenue Capacity Information	254 – 256
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.	
Debt Capacity Information	257 – 261
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.	
Demographic and Economic Information	262 – 264
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.	
Operating Information	265 – 267
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TEXAS
Statistical Section – Financial Trends Information
Net Position by Component
Last Ten Fiscal Years

(Amounts in Millions)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 47,322	\$ 49,254	\$ 51,407	\$ 53,815	\$ 55,473
Restricted	20,089	20,846	22,213	24,110	25,993
Unrestricted	2,065	(28)	541	3,753	8,696
Total Governmental Activities Net Position	<u>69,476</u>	<u>70,072</u>	<u>74,161</u>	<u>81,678</u>	<u>90,162</u>
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464	6,253	6,871
Restricted	14,413	15,168	17,628	20,581	22,812
Unrestricted	5,841	6,167	5,805	7,076	8,056
Total Business-Type Activities Net Position	<u>25,396</u>	<u>27,072</u>	<u>29,897</u>	<u>33,910</u>	<u>37,739</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871	60,068	62,344
Restricted	34,502	36,014	39,841	44,691	48,805
Unrestricted	7,906	6,139	6,346	10,829	16,752
Total Primary Government Net Position	<u>\$ 94,872</u>	<u>\$ 97,144</u>	<u>\$ 104,058</u>	<u>\$ 115,588</u>	<u>\$ 127,901</u>
	2007	2008	2009	2010	2011
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 56,438	\$ 58,208	\$ 59,720	\$ 60,744	\$ 61,917
Restricted	29,347	31,358	32,663	26,136	32,014
Unrestricted	12,565	11,105	3,479	8,025	3,322
Total Governmental Activities Net Position	<u>98,350</u>	<u>100,671</u>	<u>95,862</u>	<u>94,905</u>	<u>97,253</u>
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	7,343	7,385	7,655	7,933	9,243
Restricted	25,815	24,882	18,744	22,209	24,375
Unrestricted	9,741	9,885	8,619	7,230	8,516
Total Business-Type Activities Net Position	<u>42,899</u>	<u>42,152</u>	<u>35,018</u>	<u>37,372</u>	<u>42,134</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	63,781	65,593	67,375	68,677	71,160
Restricted	55,162	56,240	51,407	48,345	56,389
Unrestricted	22,306	20,990	12,098	15,255	11,838
Total Primary Government Net Position	<u>\$ 141,249</u>	<u>\$ 142,823</u>	<u>\$ 130,880</u>	<u>\$ 132,277</u>	<u>\$ 139,387</u>

Source: 2002-11 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years

(Amounts in Thousands)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	\$ 1,947,049	\$ 2,026,241	\$ 2,234,369	\$ 2,206,793	\$ 2,681,117
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550
Employee Benefits	14,757	22,644	60,536	50,544	56,718
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178
Regulatory Services	273,023	324,567	375,951	349,420	282,067
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121
Total Expenses	<u>50,972,045</u>	<u>54,459,855</u>	<u>54,961,712</u>	<u>57,627,650</u>	<u>62,338,468</u>
Program Revenues					
Charges for Services:					
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924
Education	236,776	485,676	520,621	594,702	626,224
Employee Benefits	383	112	171	97	120
Teacher Retirement Benefits				10	93,694
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872
Regulatory Services	63,986	92,875	212,919	534,469	596,705
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006
Total Program Revenues	<u>23,731,340</u>	<u>29,711,897</u>	<u>32,199,065</u>	<u>35,499,452</u>	<u>37,862,738</u>
Total Governmental Activities					
Net Program Expense	<u>(27,240,705)</u>	<u>(24,747,958)</u>	<u>(22,762,647)</u>	<u>(22,128,198)</u>	<u>(24,475,730)</u>
General Revenues					
Taxes:					
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207
Federal Jobs and Growth Tax Relief Funds		354,535	354,535		
Settlement of Claims	512,579	563,196	523,518	885,975	583,787
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679
Capital Contributions		600	944	107	1,449
Transfers	<u>(3,171,399)</u>	<u>(3,069,447)</u>	<u>(2,867,137)</u>	<u>(2,966,197)</u>	<u>(3,513,639)</u>
Total General Revenues, Contributions and Transfers	<u>23,776,451</u>	<u>25,050,344</u>	<u>26,873,930</u>	<u>29,010,665</u>	<u>32,900,090</u>
Change in Net Position – Governmental Activities	<u>(3,464,254)</u>	<u>302,386</u>	<u>4,111,283</u>	<u>6,882,467</u>	<u>8,424,360</u>

Source: 2002-11 state of Texas financial statements

2007	2008	2009	2010	2011
\$ 2,555,309	\$ 2,659,822	\$ 3,052,177	\$ 3,451,868	\$ 4,037,805
21,313,526	24,986,076	24,952,375	27,344,876	28,643,283
61,171	86,195	220,272	252,457	324,477
2,017,000	1,761,759	1,667,325	2,200,408	2,262,638
30,886,484	32,426,046	38,124,180	41,487,191	44,875,285
5,035,761	5,020,897	6,026,868	6,231,847	5,539,155
4,252,129	4,478,109	4,025,226	4,146,987	4,377,794
1,217,201	1,451,450	1,673,915	1,559,708	1,474,675
314,266	398,885	445,938	447,557	408,115
229,354	578,059	525,648	755,314	797,030
<u>67,882,201</u>	<u>73,847,298</u>	<u>80,713,924</u>	<u>87,878,213</u>	<u>92,740,257</u>
1,141,278	1,171,997	1,010,388	984,639	1,019,521
584,971	821,291	474,249	463,719	632,584
116	107	109	135	100
26,661		33,624		
2,059,789	1,832,315	1,825,395	1,782,704	2,101,440
823,602	331,101	354,117	336,134	330,198
1,530,669	1,785,835	1,920,123	1,891,247	1,999,695
714,687	661,657	574,032	605,751	587,423
604,199	635,089	646,959	687,746	666,158
29,995,409	25,900,072	32,410,929	43,148,227	47,220,463
1,823,686	2,585,507	2,619,631	2,453,183	2,538,949
<u>39,305,067</u>	<u>35,724,971</u>	<u>41,869,556</u>	<u>52,353,485</u>	<u>57,096,531</u>
(28,577,134)	(38,122,327)	(38,844,368)	(35,524,728)	(35,643,726)
20,230,164	21,640,855	21,026,034	19,558,426	21,751,249
3,338,498	3,384,597	2,568,599	2,624,725	3,001,387
3,149,043	3,000,148	3,155,941	3,060,246	3,108,153
3,273,050	4,712,183	3,303,170	3,809,109	3,998,073
2,692,032	4,036,033	1,335,296	2,157,334	3,069,384
1,368,340	1,446,828	1,295,330	1,309,620	1,379,621
1,325,712	1,454,187	1,564,061	1,394,122	1,551,420
1,694,750	1,744,400	1,680,362	1,676,452	1,802,300
941,938	1,041,840	178,470	575,642	334,621
538,836	555,476	555,626	925,676	584,305
3,942				99
1,627,330	1,392,565	1,769,051	2,017,783	1,533,427
309	8,653	1,554	30,845	108,119
<u>(3,383,910)</u>	<u>(3,909,529)</u>	<u>(4,268,014)</u>	<u>(4,491,627)</u>	<u>(4,179,888)</u>
36,800,034	40,508,236	34,165,480	34,648,353	38,042,270
<u>8,222,900</u>	<u>2,385,909</u>	<u>(4,678,888)</u>	<u>(876,375)</u>	<u>2,398,544</u>

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STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position (concluded)

Last Ten Fiscal Years

(Amounts in Thousands)

	2002	2003	2004	2005	2006
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	\$ 246,183	\$ 235,098	\$ 187,064	\$ 142,142	\$ 162,499
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582
Employee Benefits		517,912	615,692		
Teacher Retirement Benefits				761,240	813,133
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775
Transportation	13,011	16,937	22,725	346	16,339
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241
Regulatory Services	2,096				
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084
Total Expenses	<u>17,812,268</u>	<u>19,464,504</u>	<u>19,208,472</u>	<u>20,090,848</u>	<u>21,273,084</u>
Program Revenues					
Charges for Services:					
General Government	32,475	50,669	44,166	27,947	37,245
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371
Employee Benefits		584,709	758,255		
Teacher Retirement Benefits				823,910	861,648
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032
Transportation			39,162	14	13
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541
Total Program Revenues	<u>12,659,691</u>	<u>17,401,765</u>	<u>18,668,532</u>	<u>21,538,859</u>	<u>21,289,960</u>
Total Business-Type Activities					
Net Program Revenue (Expense)	<u>(5,152,577)</u>	<u>(2,062,739)</u>	<u>(539,940)</u>	<u>1,448,011</u>	<u>16,876</u>
General Revenues					
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150
Settlement of Claims	2,579	5	4	20	94
Gain on Sale of Capital Assets	750			6,431	276
Other General Revenue	301,020	329,235	194,474	126,957	91,017
Capital Contributions	112,088	1,318	2,715	133	3,874
Contributions to Permanent and Term Endowments	101,473	235,997	235,182	145,919	123,939
Special Items					(38,898)
Extraordinary Items	603,679	36,532	(13,401)		
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	<u>4,401,819</u>	<u>3,700,554</u>	<u>3,479,458</u>	<u>3,314,080</u>	<u>3,749,091</u>
Change in Net Position – Business-Type Activities	<u>(750,758)</u>	<u>1,637,815</u>	<u>2,939,518</u>	<u>4,762,091</u>	<u>3,765,967</u>
Change in Net Position – Primary Government	<u>\$ (4,215,012)</u>	<u>\$ 1,940,201</u>	<u>\$ 7,050,801</u>	<u>\$ 11,644,558</u>	<u>\$ 12,190,327</u>

2007	2008	2009	2010	2011
\$ 186,628	\$ 177,012	\$ 180,543	\$ 162,620	\$ 150,406
17,165,602	18,619,716	20,135,452	20,943,292	22,226,690
909,845				
1,204,609	1,467,185	4,908,112	7,826,452	6,055,958
75,305	80,607	83,498	87,120	86,262
125,910	164,280	220,881	206,822	209,880
283,653	247,018	304,577	353,641	423,140
2,691,210	2,634,446	2,680,273	2,681,627	2,783,798
<u>22,642,762</u>	<u>23,390,264</u>	<u>28,513,336</u>	<u>32,261,574</u>	<u>31,936,134</u>
42,713	43,106	42,147	47,377	49,717
8,268,639	8,705,756	9,253,972	9,907,344	10,931,371
939,879				
1,665,242	1,058,134	1,027,897	2,107,474	2,675,581
82,779	87,365	90,469	93,734	95,736
16,757	48,958	66,375	73,312	74,877
41,034	42,964	46,682	44,973	43,374
3,774,948	3,672,423	3,720,995	3,739,165	3,811,862
9,001,427	4,808,580	3,613,083	13,292,594	14,103,243
197,731	245,962	95,889	305,669	281,741
<u>24,031,149</u>	<u>18,713,248</u>	<u>17,957,509</u>	<u>29,611,642</u>	<u>32,067,502</u>
1,388,387	(4,677,016)	(10,555,827)	(2,649,932)	131,368
245,977	190,974	129,445	134,195	86,295
283	6	14,691	1,384	1,215
13,363	269	609		1
266,722	270,787	156,903	241,013	222,640
1,364				3,045
184,193	167,692	120,404	136,577	126,971
(318,813)	(150,026)			
3,383,910	3,909,529	4,268,014	4,491,627	4,179,888
3,776,999	4,389,231	4,690,066	5,004,796	4,620,055
5,165,386	(287,785)	(5,865,761)	2,354,864	4,751,423
<u>\$ 13,388,286</u>	<u>\$ 2,098,124</u>	<u>\$ (10,544,649)</u>	<u>\$ 1,478,489</u>	<u>\$ 7,149,967</u>

STATE OF TEXAS
Statistical Section – Financial Trends Information
Fund Balances – Governmental Funds
Last Ten Fiscal Years

(Amounts in Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
GENERAL FUND									
Reserved	\$ 1,430	\$ 1,042	\$ 1,185	\$ 1,752	\$ 1,648	\$ 2,138	\$ 2,471	\$ 3,380	\$ 5,460
Unreserved	(369)	(2,326)	(1,562)	286	5,673	8,698	8,184	5,586	2,950
Total General Fund	<u>\$ 1,061</u>	<u>\$ (1,284)</u>	<u>\$ (377)</u>	<u>\$ 2,038</u>	<u>\$ 7,321</u>	<u>\$ 10,836</u>	<u>\$ 10,655</u>	<u>\$ 8,966</u>	<u>\$ 8,410</u>
ALL OTHER GOVERNMENTAL FUNDS									
Reserved	\$ 19,187	\$ 20,485	\$ 21,850	\$ 24,275	\$ 25,999	\$ 29,054	\$ 27,957	\$ 25,586	\$ 28,193
Unreserved									
Special Revenue	1,669	1,256	1,309	1,460	910	1,847	4,953	5,323	3,343
Capital Projects	13	14	15		7	(11)	(124)	(111)	(204)
Permanent	429	458	492	546	575	632	564	477	1,028
Total All Other Governmental Funds	<u>\$ 21,298</u>	<u>\$ 22,213</u>	<u>\$ 23,666</u>	<u>\$ 26,281</u>	<u>\$ 27,491</u>	<u>\$ 31,522</u>	<u>\$ 33,350</u>	<u>\$ 31,275</u>	<u>\$ 32,360</u>

	2011*
GENERAL FUND	
Nonspendable	\$ 501
Restricted	1,393
Committed	4,185
Assigned	29
Unassigned	1,077
Total General Fund	<u>\$ 7,185</u>

ALL OTHER GOVERNMENTAL FUNDS	
Nonspendable	\$ 12,254
Restricted	22,606
Committed	758
Assigned	2
Unassigned	(738)
Total All Other Governmental Funds	<u>\$ 34,882</u>

* Due to the changes in the state's fund structure initiated when GASB Statement No. 54 was implemented, information for fund balances is available only for the line-items presented beginning in 2011.

Source: 2002-11 state of Texas financial statements.

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES BY SOURCE										
Tax Collections	\$25,123	\$25,939	\$27,976	\$29,830	\$33,867	\$36,670	\$41,256	\$37,654	\$35,868	\$39,632
Federal Funds	20,307	23,017	24,382	25,851	28,212	26,967	28,656	35,699	42,483	44,907
Licenses, Fees and Permits	2,815	2,921	3,332	3,590	4,011	4,324	4,522	4,433	4,533	4,661
Interest and Other Investment Income	(815)	2,118	2,435	3,317	3,218	4,574	(368)	(1,957)	2,171	3,609
Land Income	179	298	482	544	462	422	650	390	384	551
Settlement of Claims	513	563	523	883	583	539	555	555	614	593
Sales of Goods and Services	962	1,131	1,109	1,445	1,503	2,697	2,063	1,962	1,816	2,125
Other Revenues	1,273	1,464	1,754	1,918	2,159	2,730	2,590	3,192	3,499	3,087
Total Revenues	50,357	57,451	61,993	67,378	74,015	78,923	79,924	81,928	91,368	99,165
EXPENDITURES BY FUNCTION										
General Government	1,846	1,961	2,191	2,151	2,530	2,415	2,628	3,025	3,352	3,981
Education	15,739	15,927	16,220	16,204	18,025	21,317	24,976	24,941	27,331	28,639
Employee Benefits	15	12	12	12	13	14	14	13	15	14
Teacher Retirement Benefits							1,781	1,729	1,830	1,854
Health and Human Services	22,394	24,690	25,039	27,192	28,761	30,855	32,355	37,988	41,367	44,869
Public Safety and Corrections	4,037	4,067	3,887	3,952	4,939	4,897	4,864	5,802	6,006	5,415
Transportation	3,096	3,065	2,970	3,246	3,909	3,702	3,895	3,399	3,474	3,647
Natural Resources and Recreation	713	787	844	1,039	930	1,172	1,420	1,606	1,566	1,518
Regulatory Services	270	311	371	345	294	317	393	434	438	407
Debt Service:										
Principal	287	367	211	306	393	437	415	596	731	592
Interest	339	360	335	375	238	370	428	513	720	757
Other Financing Fees					2	14	15	15	41	16
Capital Outlay	2,274	2,654	2,830	3,735	3,938	4,368	4,404	3,738	3,539	3,737
Total Expenditures	51,010	54,201	54,910	58,557	63,972	69,878	77,588	83,799	90,410	95,446
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(653)	3,250	7,083	8,821	10,043	9,045	2,336	(1,871)	958	3,719
OTHER FINANCING SOURCES (USES)										
Transfer In	6,093	5,793	6,984	7,488	7,343	7,765	13,832	9,737	11,465	6,138
Transfer Out	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)	(15,987)	(10,344)
Bonds and Notes Issued	232	383	87	1,242	1,440	3,471	2,988	1,940	3,808	1,566
Bonds Issued for Refunding	8	164	58	208	72	249	515	271	385	547
Payment to Escrow for Refunding	(8)	(164)	(69)	(208)	(72)	(263)	(559)	(309)	(214)	(580)
Premiums on Bonds Issued **						126	180	33	48	85
Sale of Capital Assets	80	21	50	37	17	29	22	16	14	9
Increases in Obligations Under Capital Leases		4			3		1		10	3
Insurance Recoveries					7	2	15	18	15	12
Total Other Financing Sources (Uses)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)	(2,327)	(456)	(2,564)
NET CHANGE IN FUND BALANCES	\$ (5,118)	\$ (1,486)	\$ 2,351	\$ 5,340	\$ 6,420	\$ 7,537	\$ 1,553	\$ (4,198)	\$ 502	\$ 1,155
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES										
	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%	1.4%	1.7%	1.5%

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2002-11 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Taxable Sales by Industry
For the Fiscal Years 2001 through 2010*

(Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture, Forestry, Fishing, Hunting	\$ 127	\$ 108	\$ 105	\$ 137	\$ 149	\$ 147	\$ 152	\$ 132	\$ 138
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351	15,950	10,038	13,361
Utilities	4,801	5,282	5,485	7,543	9,022	9,305	9,881	9,576	9,491
Construction	6,857	7,003	8,071	9,271	11,583	13,144	14,180	11,013	10,847
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021	27,145	22,423	23,256
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663	28,512	22,225	22,585
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050	138,266	130,657	134,900
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832	2,907	2,168	1,933
Information	23,884	23,900	24,804	26,579	29,538	30,933	33,305	32,753	33,321
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183	2,868	2,637	2,423
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062	9,397	7,348	7,391
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657	8,400	7,760	7,683
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525	854	322	303
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434	9,886	9,368	9,563
Educational Services	281	294	341	379	406	428	337	371	450
Health Care, Social Assistance	422	513	547	600	623	743	757	790	812
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215	3,481	3,537	3,633
Accommodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962	33,667	33,246	34,600
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889	8,087	7,248	7,632
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468	1,641	1,662	1,676
Nonclassifiable	5	9	8	8	6	4	4	4	4
Other	3,263	1,655	648	221	98	57	19	56	66
Total Taxable Sales	<u>\$ 229,958</u>	<u>\$ 234,565</u>	<u>\$ 248,953</u>	<u>\$ 273,665</u>	<u>\$ 306,601</u>	<u>\$ 330,073</u>	<u>\$ 349,696</u>	<u>\$ 315,334</u>	<u>\$ 326,068</u>
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	2001
Agriculture, Forestry, Fishing	\$ 1,367
Mining, Natural Resources	2,815
Construction	7,422
Manufacturing	16,141
Transportation, Communications, Utilities	28,415
Wholesale Trade	19,172
Retail Trade	127,145
Finance, Insurance, Real Estate	1,226
Services	29,742
Public Administration	513
Nonclassifiable Establishments	35
Other	838
Total Taxable Sales	<u>\$ 234,831</u>
Direct Sales Tax Rate	6.25%

* Fiscal 2011 data are not available until mid-year of the following fiscal year.

** North American Industry Classification System – available only from 2002-10

*** Standard Industrial Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

STATE OF TEXAS

Statistical Section – Revenue Capacity Information**State Tax Collections and Retail Sales****Last Ten Years**

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 2002-11*

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Tax Collections	\$25,123	\$25,939	\$27,976	\$29,830	\$33,867	\$36,670	\$41,256	\$37,654	\$35,868	\$39,632
Percentage Tax Collection Change From Prior Year	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%	(8.7)%	(4.7)%	10.5%
Resident Population	21.8	22.1	22.5	22.9	23.4	23.9	24.4	24.8	25.3	25.8
Percentage Population Change From Prior Year	1.9%	1.4%	1.8%	1.8%	2.2%	2.1%	2.1%	1.6%	2.0%	2.0%
State Tax Collections Per Capita	\$ 1,152	\$ 1,174	\$ 1,243	\$ 1,303	\$ 1,447	\$ 1,534	\$ 1,691	\$ 1,518	\$ 1,418	\$ 1,536

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures were taken from the 2002-11 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales**Last Ten Years**

(Amounts in Millions)

Year	Retail Sales	Percent Change
2002*	\$290,719	(5.3)%
2003	\$306,363	5.4%
2004	\$340,363	11.1%
2005	\$364,788	7.2%
2006	\$380,303	4.3%
2007	\$394,884	3.8%
2008	\$435,256	10.2%
2009	\$391,379	(10.1)%
2010	\$409,999	4.8%
2011**	\$205,507	9.0%

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-11

The percentage change in 2002 is based on SIC data for both 2001 and 2002.

** First half of 2011 and the percentage change over the first half of 2010.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Texas Gross State Product by Industry
Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture, Forestry and Fishing	\$ 6,969	\$ 8,346	\$ 9,872	\$ 8,491	\$ 7,292	\$ 8,736	\$ 7,935	\$ 6,048	\$ 7,173	\$ 8,122
% Change	8.8	19.8	18.3	(14.0)	(14.1)	19.8	(9.2)	(23.8)	18.6	13.2
Mining and Natural Resources	45,807	59,818	69,273	83,482	97,228	111,211	142,158	98,523	114,425	123,368
% Change	7.3	30.6	15.8	20.5	16.5	14.4	27.8	(30.7)	16.1	7.8
Construction	42,460	45,433	47,439	53,008	56,129	59,369	59,385	51,440	49,162	53,967
% Change	2.1	7.0	4.4	11.7	5.9	5.8	0.0	(13.4)	(4.4)	9.8
Manufacturing	96,562	98,155	131,978	137,475	158,467	172,048	152,488	148,916	160,743	164,358
% Change	1.0	1.6	34.5	4.2	15.3	8.6	(11.4)	(2.3)	7.9	2.2
Trade, Transportation and Utilities	155,639	161,473	170,712	181,096	196,685	209,981	215,066	206,642	217,084	229,713
% Change	1.3	3.7	5.7	6.1	8.6	6.8	2.4	(3.9)	5.1	5.8
Information	37,522	37,810	40,928	42,605	44,076	47,525	48,224	46,838	47,438	45,955
% Change	7.7	0.8	8.2	4.1	3.5	7.8	1.5	(2.9)	1.3	(3.1)
Financial Activities	129,291	133,435	135,872	143,383	152,737	164,917	180,341	183,075	187,925	193,404
% Change	5.2	3.2	1.8	5.5	6.5	8.0	9.4	1.5	2.6	2.9
Professional and Business Services	80,645	82,914	90,425	99,897	109,290	123,270	131,403	126,956	133,405	144,237
% Change	0.7	2.8	9.1	10.5	9.4	12.8	6.6	(3.4)	5.1	8.1
Educational and Health Services	50,237	53,117	57,128	58,323	61,835	66,314	71,739	77,517	82,589	88,328
% Change	9.6	5.7	7.6	2.1	6.0	7.2	8.2	8.1	6.5	6.9
Leisure and Hospitality Services	28,533	29,362	30,812	32,639	34,973	37,329	37,531	37,076	38,337	41,664
% Change	5.4	2.9	4.9	5.9	7.2	6.7	0.5	(1.2)	3.4	8.7
Other Private Services	20,465	20,610	21,323	22,656	23,460	25,051	25,671	25,629	26,406	28,191
% Change	6.1	0.7	3.5	6.3	3.5	6.8	2.5	(0.2)	3.0	6.8
Government, including Schools	91,308	96,675	101,126	107,941	113,783	122,232	130,161	138,008	142,794	146,485
% Change	7.5	5.9	4.6	6.7	5.4	7.4	6.5	6.0	3.5	2.6
TOTAL	\$785,438	\$827,148	\$906,888	\$970,996	\$1,055,955	\$1,147,983	\$1,202,102	\$1,146,668	\$1,207,481	\$1,267,792
% Change	2.6	5.3	9.6	7.1	8.7	8.7	4.7	(4.6)	5.3	5.0
TOTAL (in 2000 Chained Dollars)	916,438	918,039	968,363	970,994	1,017,510	1,072,660	1,070,830	1,076,410	1,106,246	1,132,259
% Change	2.4	0.2	5.5	0.3	4.8	5.4	(0.2)	0.5	2.8	2.4

* North American Industry Classification System

Source: U.S. Bureau of Economic Analysis (BEA) – BEA periodically revises its personal income and gross product data.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Legal Debt Margin Information
Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2002	2003	2004	2005	2006
Debt Service Limit*	\$ 1,308,045	\$ 1,318,449	\$ 1,344,627	\$ 1,405,937	\$ 1,518,628
Total Net Debt Service Applicable to Limit	<u>580,012</u>	<u>626,185</u>	<u>622,433</u>	<u>620,989</u>	<u>545,725</u>
Legal Debt Service Margin	<u>\$ 728,033</u>	<u>\$ 692,264</u>	<u>\$ 722,194</u>	<u>\$ 784,948</u>	<u>\$ 972,903</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	44.3%	47.5%	46.3%	44.2%	35.9%

	2007	2008	2009	2010	2011
Debt Service Limit*	\$ 1,664,884	\$ 1,773,089	\$ 1,795,118	\$ 1,759,856	\$ 1,782,305
Total Net Debt Service Applicable to Limit	<u>605,518</u>	<u>1,450,498</u>	<u>1,464,078</u>	<u>1,443,705</u>	<u>1,318,175</u>
Legal Debt Service Margin	<u>\$ 1,059,366</u>	<u>\$ 322,591</u>	<u>\$ 331,040</u>	<u>\$ 316,151</u>	<u>\$ 464,130</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	36.4%	81.8%	81.6%	82.0%	74.0%

Legal Debt Service Margin Calculation for Fiscal 2011

Unrestricted General Revenue fiscal 2009	\$ 34,711,114
Unrestricted General Revenue fiscal 2010	34,014,030
Unrestricted General Revenue fiscal 2011	38,213,158
Debt Service Limit*	1,782,305
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from General Revenue (GR)	480,250
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>837,925</u>
Total Net Debt Service Applicable to Limit	1,318,175
Legal Debt Service Margin	<u>\$ 464,130</u>

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases			
2002	\$3,081	\$ 809	\$ 98	\$52	\$2,671	\$8,264	\$1,607	\$20	\$16,602	2.6%	763
2003	3,185	739	103	52	2,599	9,277	1,889	23	17,867	2.7%	808
2004	3,116	679	116	48	2,719	10,844	1,920	12	19,454	2.8%	866
2005	3,972	632	262	44	2,815	11,749	1,614	14	21,102	2.8%	921
2006	4,479	1,152	331	15	2,739	12,378	1,741	12	22,847	2.8%	975
2007	6,757	2,031	216	11	2,775	12,304	2,029	14	26,137	3.0%	1,094
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.1%	1,250
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.5%	1,367
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.0%	1,563
2011	11,520	5,456	1,150	14	2,956	18,767	2,006	20	41,889	4.0%	1,624

Source: 2002-11 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information**Ratios of General Bonded Debt Outstanding****Last Ten Fiscal Years***

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bonded Debt (General										
Obligation Bonds Only)	\$ 5,756	\$ 5,784	\$ 5,835	\$ 6,787	\$ 7,218	\$ 9,532	\$ 10,768	\$ 12,672	\$ 13,029	\$ 14,476
Percentage Bonded Debt										
Change From Prior Year	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%	17.7%	2.8%	11.1%
Tax Collections	25,123	25,939	27,976	29,830	33,867	36,670	41,256	37,654	35,868	39,632
Percentage Bonded Debt to										
Tax Collections	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%	33.7%	36.3%	36.5%
Resident Population	21.8	22.1	22.5	22.9	23.4	23.9	24.4	24.8	25.3	25.8
General Bonded Debt										
Per Capita	\$ 265	\$ 261	\$ 259	\$ 296	\$ 308	\$ 399	\$ 441	\$ 511	\$ 515	\$ 561

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are taken from the 2002-11 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Pledged Revenue Bond Coverage
Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	\$ 93,796	\$ 93,942	\$ 101,178	\$ 150,119	\$ 81,011
Operating Expenditures	2,257	11,772	2,525	15,540	1,452
Net Available Revenue	<u>\$ 91,539</u>	<u>\$ 82,170</u>	<u>\$ 98,653</u>	<u>\$ 134,579</u>	<u>\$ 79,559</u>
Debt Service –					
Principal	\$ 70,230	\$ 74,106	\$ 77,058	\$ 84,087	\$ 86,056
Interest	41,996	37,478	33,314	26,115	25,764
Total Debt Service	<u>\$ 112,226</u>	<u>\$ 111,584</u>	<u>\$ 110,372</u>	<u>\$ 110,202</u>	<u>\$ 111,820</u>
Coverage Ratio	0.8	0.7	0.9	1.2	0.7
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	\$ 7,236,922	\$ 6,401,630	\$ 7,049,189	\$ 8,369,686	\$ 9,088,841
Operating Expenditures	207,852	536,191	885,294	839,699	364,043
Net Available Revenue	<u>\$ 7,029,070</u>	<u>\$ 5,865,439</u>	<u>\$ 6,163,895</u>	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>
Debt Service –					
Principal	\$ 242,174	\$ 490,032	\$ 440,036	\$ 532,128	\$ 623,346
Interest	355,997	371,983	492,366	503,958	537,104
Total Debt Service	<u>\$ 598,171</u>	<u>\$ 862,015</u>	<u>\$ 932,402</u>	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>
Coverage Ratio	11.8	6.8	6.6	7.3	7.5
COMPONENT UNITS*					
Pledged Revenue Bond Amount	\$ 25,863	\$ 16,215	\$ 11,781	\$ 13,524	\$ 13,704
Operating Expenditures	625		349	225	264
Net Available Revenue	<u>\$ 25,238</u>	<u>\$ 16,215</u>	<u>\$ 11,432</u>	<u>\$ 13,299</u>	<u>\$ 13,440</u>
Debt Service –					
Principal	\$ 13,000	\$ 12,130	\$ 11,050	\$	\$ 5,840
Interest	6,875	5,463	2,937	3,628	4,940
Total Debt Service	<u>\$ 19,875</u>	<u>\$ 17,593</u>	<u>\$ 13,987</u>	<u>\$ 3,628</u>	<u>\$ 10,780</u>
Coverage Ratio	1.3	0.9	0.8	3.7	1.2
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9

* Component units were revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources.

Operating expenditures include capital outlay expenditures.

Source: 2002-11 state of Texas financial statements and bond reporting system

2007	2008	2009	2010	2011
\$ 5,765,826	\$ 6,748,490	\$ 6,640,110	\$ 5,522,453	\$ 6,085,973
6,881,279	7,447,496	7,233,759	6,085,684	6,729,036
<u>\$ (1,115,453)</u>	<u>\$ (699,006)</u>	<u>\$ (593,649)</u>	<u>\$ (563,231)</u>	<u>\$ (643,063)</u>
\$ 104,077	\$ 112,250	\$ 156,490	\$ 168,785	\$ 161,750
66,822	118,203	152,025	147,501	263,708
<u>\$ 170,899</u>	<u>\$ 230,453</u>	<u>\$ 308,515</u>	<u>\$ 316,286</u>	<u>\$ 425,458</u>
(6.5)	(3.0)	(1.9)	(1.8)	(1.5)
\$ 9,869,477	\$ 10,225,735	\$ 10,700,325	\$ 11,514,734	\$ 12,864,956
1,457,567	11,698,563	8,481,872	9,202,811	9,986,234
<u>\$ 8,411,910</u>	<u>\$ (1,472,828)</u>	<u>\$ 2,218,453</u>	<u>\$ 2,311,923</u>	<u>\$ 2,878,722</u>
\$ 683,150	\$ 420,487	\$ 455,540	\$ 482,474	\$ 638,223
560,359	558,666	620,323	703,116	792,065
<u>\$ 1,243,509</u>	<u>\$ 979,153</u>	<u>\$ 1,075,863</u>	<u>\$ 1,185,590</u>	<u>\$ 1,430,288</u>
6.8	(1.5)	2.1	2.0	2.0
\$ 13,034	\$ 10,971	\$ 62,397	\$ 63,667	\$ 97,297
91	552	1,051	1,332	1,038
<u>\$ 12,943</u>	<u>\$ 10,419</u>	<u>\$ 61,346</u>	<u>\$ 62,335</u>	<u>\$ 96,259</u>
\$ 5,485	\$ 5,090	\$ 78,793	\$ 42,762	\$ 58,588
5,051	3,610	16,926	5,194	11,760
<u>\$ 10,536</u>	<u>\$ 8,700</u>	<u>\$ 95,719</u>	<u>\$ 47,956</u>	<u>\$ 70,348</u>
1.2	1.2	0.6	1.3	1.4
5.1	(1.8)	1.1	1.2	1.2

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs
Calendar Years 2002-2011

Employment by Industry	2002	2003	2004	2005	2006
GOODS-PRODUCING					
Natural Resources and Mining	145,225	146,600	153,042	166,000	185,775
Construction	567,983	552,000	544,267	566,750	605,308
Manufacturing					
Durables	591,958	560,375	559,883	570,183	599,750
Nondurables	356,142	339,075	330,492	326,542	324,092
Total, Goods-Producing	<u>1,661,308</u>	<u>1,598,050</u>	<u>1,587,684</u>	<u>1,629,475</u>	<u>1,714,925</u>
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	463,267	458,458	463,100	477,267	497,883
Retail Trade	1,093,558	1,069,350	1,083,842	1,109,092	1,132,325
Transportation and Warehousing	340,532	339,598	350,722	361,281	374,594
Utilities	51,468	48,402	47,303	45,710	44,331
Information	249,283	233,725	224,875	223,083	221,592
Financial Activities					
Finance and Insurance	410,183	417,233	425,442	436,342	451,125
Real Estate and Rental and Leasing	169,542	168,275	169,883	173,142	177,067
Professional and Business Services					
Professional, Scientific and Technical	455,575	451,333	468,017	493,267	522,667
Management, Administrative and Support	610,917	607,367	632,592	668,400	718,150
Educational and Health Services					
Educational Services, Private	131,275	132,183	136,142	140,592	143,117
Health Care and Social Assistance	951,083	986,442	1,013,225	1,043,150	1,072,658
Leisure and Hospitality	846,533	858,717	884,708	906,558	940,275
Other Services	356,142	355,350	353,317	347,842	347,792
Government					
Federal Civilian	179,108	180,442	180,608	181,908	185,358
State	342,321	342,106	340,348	349,309	353,593
Local	1,104,687	1,123,644	1,134,619	1,152,775	1,167,849
Total, Service-Providing	<u>7,755,474</u>	<u>7,772,625</u>	<u>7,908,743</u>	<u>8,109,718</u>	<u>8,350,376</u>
Total Nonfarm Employment	<u>9,416,782</u>	<u>9,370,675</u>	<u>9,496,427</u>	<u>9,739,193</u>	<u>10,065,301</u>

* Data in the table are annual averages. Data for 2011 include estimates for the final month. Prior years are subject to annual benchmark revisions.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and Texas Comptroller of Public Accounts

2007	2008	2009	2010*	2011*
207,483	230,108	202,258	206,217	242,152
647,867	673,392	597,800	569,417	593,172
613,058	607,650	536,092	515,517	533,061
320,933	316,750	301,933	295,242	292,678
<u>1,789,341</u>	<u>1,827,900</u>	<u>1,638,083</u>	<u>1,586,393</u>	<u>1,661,063</u>
518,867	528,983	499,325	497,375	511,860
1,161,533	1,174,450	1,141,267	1,133,725	1,155,717
387,479	392,471	371,979	370,145	378,656
45,529	47,312	47,871	48,380	49,585
220,975	217,225	204,308	195,175	188,554
461,775	461,733	452,700	451,600	456,707
182,225	185,275	175,283	170,150	171,703
558,192	586,400	563,000	565,208	572,551
743,967	750,075	689,267	707,558	754,650
146,892	148,725	150,742	155,925	153,931
1,107,200	1,138,383	1,185,783	1,231,700	1,277,280
980,125	1,006,208	1,005,575	1,005,875	1,034,260
355,275	363,025	360,883	360,942	369,293
186,342	191,183	197,758	209,158	199,372
359,315	364,676	371,513	377,569	376,007
1,189,285	1,223,124	1,251,912	1,273,556	1,264,536
<u>8,604,976</u>	<u>8,779,248</u>	<u>8,669,166</u>	<u>8,754,041</u>	<u>8,914,662</u>
<u>10,394,317</u>	<u>10,607,148</u>	<u>10,307,249</u>	<u>10,340,434</u>	<u>10,575,725</u>

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

Texas and U.S. Selected Statistics

Last Ten Years

Texas and U.S. Population, Total Personal Income and Per Capita Income Last Ten Years

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
2002	21,753	1.8%	288,472	1.0%	628,274	1.0%	9,060,100	2.0%	28,882	(0.8)%	31,407	1.0%
2003	22,106	1.6%	291,178	0.9%	652,610	3.9%	9,378,150	3.5%	29,522	2.2%	32,208	2.5%
2004	22,470	1.6%	293,846	0.9%	696,796	6.8%	9,937,275	6.0%	31,010	5.0%	33,818	5.0%
2005	22,922	2.0%	296,574	0.9%	756,683	8.6%	10,485,900	5.5%	33,011	6.5%	35,357	4.6%
2006	23,440	2.3%	299,422	1.0%	824,281	8.9%	11,268,100	7.5%	35,165	6.5%	37,633	6.4%
2007	23,901	2.0%	302,393	1.0%	884,119	7.3%	11,912,275	5.7%	36,992	5.2%	39,393	4.7%
2008	24,370	2.0%	305,169	0.9%	968,231	9.5%	12,460,150	4.6%	39,730	7.4%	40,830	3.6%
2009	24,849	2.0%	307,842	0.9%	956,808	(1.2)%	11,930,200	(4.3)%	38,506	(3.1)%	38,754	(5.1)%
2010*	25,322	1.9%	310,834	1.0%	991,891	3.7%	12,373,525	3.7%	39,172	1.7%	39,808	2.7%
2011*	25,790	1.9%	313,838	1.0%	1,050,428	5.9%	13,002,333	5.1%	40,730	4.0%	41,430	4.1%

* Prior years are subject to revisions. 2011 numbers include some forecast model quarterly estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

Texas and U.S. Employment and Unemployment Rates

Last Ten Years

(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
2002	9,416	(1.0)%	130,340	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,996	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,419	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,699	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,098	1.8%	4.9%	4.6%
2007	10,395	3.3%	137,604	1.1%	4.4%	4.6%
2008	10,607	2.0%	137,046	(0.4)%	4.9%	5.8%
2009	10,307	(2.8)%	130,789	(4.6)%	7.5%	9.2%
2010*	10,340	0.3%	129,822	(0.7)%	8.2%	9.6%
2011*	10,574	2.3%	131,058	1.0%	8.3%	9.1%

* 2010 and 2011 numbers are subject to benchmark revisions. 2011 Texas numbers include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics – historical data was revised

STATE OF TEXAS
Statistical Section – Operating Information
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
FUNCTION										
General Government	13,362	13,607	13,034	13,435	12,999	13,438	13,155	13,720	13,801	13,692
Education	129,767	133,857	134,456	140,367	144,636	146,944	152,121	156,375	159,918	161,636
Employee Benefits	314	315	302	292	294	302	311	325	344	338
Teacher Retirement Benefits	437	441	440	451	444	445	454	476	496	514
Health and Human Services	53,420	52,238	49,288	48,389	49,097	50,910	53,161	56,067	58,071	58,717
Public Safety and Corrections	52,405	53,231	51,473	51,397	51,564	50,889	50,340	52,165	53,209	51,771
Transportation	14,845	14,717	14,078	14,551	14,744	14,748	14,148	13,257	12,692	12,513
Natural Resources and Recreation	8,370	8,299	7,990	8,053	8,018	8,014	8,264	8,484	8,646	8,388
Regulatory Services	3,973	3,882	3,779	3,882	3,869	3,828	3,891	4,048	4,052	3,942
Total FTEs	<u>276,893</u>	<u>280,587</u>	<u>274,840</u>	<u>280,817</u>	<u>285,665</u>	<u>289,518</u>	<u>295,845</u>	<u>304,917</u>	<u>311,229</u>	<u>311,511</u>
Percentage Change	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%	3.1%	2.1%	0.1%

Source: Texas State Auditor's Office

STATE OF TEXAS
Statistical Section – Operating Information
Capital Asset Statistics by Function
Last Seven Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011
GENERAL GOVERNMENT							
Number of Texas Facilities Commission Owned Facilities	71	75	75	137	137	133	133
State Real Property Inventory in Acres	2,446,418	2,425,037	1,322,123	1,325,319	1,329,671	1,342,038	1,333,113
EDUCATION							
Number of School Districts (Independent and Common)	1,037	1,033	1,031	1,031	1,031	1,030	1,029
Number of Students	4,383,871	4,505,572	4,576,933	4,671,493	4,749,571	4,847,844	4,933,617
Number of Higher Education Institutions	145	145	145	145	145	148	148
HEALTH AND HUMAN SERVICES							
Number of State Mental Health Facilities	39	39	39	39	39	39	39
Number of State Hospitals	10	10	10	11	11	11	11
PUBLIC SAFETY AND CORRECTIONS							
Number of State Prisons – Texas Department of Criminal Justice only	106	106	106	112	113	112	111
Number of Available Beds (Capacity)	155,277	156,520	156,652	160,622	159,656	159,771	163,144
Number of Authorized Vehicular State Patrol Units	1,095	1,195	1,281	1,281	1,494	1,811	1,572
TRANSPORTATION							
Centerline Miles of Highways*	79,645	79,696	79,849	79,975	80,066	79,903	79,903
Number of Bridges**	32,421	33,322	32,996	33,118	33,393	33,679	33,883
NATURAL RESOURCES AND RECREATION							
Number of State Parks Managed	117	112	110	93	93	93	93
Number of Park Acreage	610,319	608,716	602,892	605,470	614,790	604,799	621,491

* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

** Number of bridges is the bridges owned by the state. Texas Department of Transportation also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites. Prior years are subject to revisions (complete capital asset statistics by function for all data presented only available from 2005-11).

STATE OF TEXAS
Statistical Section – Operating Information
Operating Indicators by Function
Last Seven Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011
GENERAL GOVERNMENT / REGULATORY SERVICES							
Number of Tax Returns Processed	3,796,940	3,904,659	4,251,103	4,054,947	4,471,082	4,594,272	4,642,495
Number of Licenses Issued	1,494,693	1,554,754	1,166,069	1,243,330	1,310,014	1,314,903	1,332,146
EDUCATION							
Average Daily School Attendance (ADA)	4,099,615	4,205,729	4,260,406	4,326,176	4,420,134	4,506,950	4,592,226
Percent of Students Passing TAKS Test*	62%	67%	70%	72%	74%	77%	76%
Texas Higher Education Enrollments	1,184,373	1,211,582	1,228,897	1,264,286	1,366,436	1,464,081	1,509,098
Higher Education Degrees Awarded**	185,326	188,258	193,321	198,298	209,868	224,498	N/A
HEALTH AND HUMAN SERVICES							
Number of Medicaid Clients Served	2,779,373	2,873,786	2,832,214	2,877,203	3,002,731	3,296,439	3,541,327
Number of TANF Clients Served ***	219,045	172,776	145,838	125,309	113,786	121,290	117,034
Number of Immunizations ****	6,381,835	11,617,682	12,827,417	12,771,928	12,734,334	14,412,427	12,258,819
PUBLIC SAFETY AND CORRECTIONS							
Number of New Prison Population	73,815	74,170	73,525	74,283	72,738	72,315	73,988
Number of Prison Population Released	69,846	71,214	72,032	72,002	72,218	71,063	70,916
Average Daily Prison Population	151,448	151,734	152,805	155,588	155,432	154,315	155,830
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,689	1,709	1,825	1,814	1,794
TRANSPORTATION							
Number of Construction Contracts Processed for Letting	989	1,075	877	694	710	1,169	944
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	18,554	15,811	13,197	8,462	15,671	16,160	14,749
– Via State Sources	7,318	6,406	5,984	6,344	5,910	6,718	8,389
Number of Vehicles Registered	19,624,460	20,609,866	21,432,773	24,359,319	24,607,246	21,570,282	21,939,786
NATURAL RESOURCES AND RECREATION							
Number of State Parks Visits (in Millions)	5.2	5.0	4.9	4.3	4.5	4.4	4.3
Number of Parks and Wildlife Licenses Issued*****	2,626,957	2,625,225	2,665,045	2,892,695	2,932,002	2,749,336	2,774,690

* “TAKS” denotes “Texas Assessment of Knowledge and Skills.” The “Percent of Students Passing TAKS test” is from the 2009-11 Texas Education Agency Academic Excellence Indicator System report at: www.tea.state.tx.us/perfreport/aeis/2011/state.pdf. These scores represent the “TAKS Met 2011 Standard (Sum of All Grades Tested)(Standard Accountability Standard)” Section.

** The 2011 degrees conferred will not be available until later in 2012.

*** Temporary Assistance for Needy Families (TANF) fiscal 2011 is based on data through November 2011, but will not be finalized until March 2012.

**** FY 2009 and FY 2010 were updated due to a revision to an automated system initiated by the Centers for Disease Control and Prevention. FY 2011 is based on data through November 2011, but will not be finalized until March 2012.

***** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites (complete operating indicators by function for all data presented only available from 2005-11).



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